



The Convention for Better Banking

American Bankers Association, at Los Angeles, Takes Stand for Equal Rights for National Banks in Urging Passage of McFadden Bill. Memorable Debate on the Hull Amendments. Bankers Indicate How Prosperous Times May Be Made Lasting.

WITH equal rights for national banks as the guiding principle, the American Bankers Association, after a full and extended debate on the McFadden bill at the 52nd annual convention at Los Angeles, voted to recommend the passage of legislation by Congress at its next session to give force to this broad national policy. Reaffirming the position that branch banking in the national system should be limited to home-city branches in states sanctioning this practice, organized banking declared that this restricted privilege should be granted to national banks in all states, which now or hereafter permit state-chartered banks to establish branches.

This action stood out as the high light of a great assembly of bankers, eclipsed in point of numbers by only one other annual convention and featured by the presentation of a number of practicable suggestions to make banking better and more profitable.

MEETING at a time of general prosperity, which President Oscar Wells happily defined as "the result of a steady production in all lines, affected but slightly by speculative motives, responsive to genuine consumption demands and without undue stimulus by credit," the convention sounded a note of caution to keep the standards up. The Economic Policy Commission warned against an undue extension of installment selling credit. While declaring that "installment selling, properly safeguarded, will not impair the soundness of our business structure," the Commission suggested that care should be taken to prevent "any departure from recognized sound business principles and any undue extension of this practice so that the people may not be encouraged to buy on deferred payments beyond their reasonable ability to pay under conditions less favorable than those that have prevailed recently."

The Association declared itself "in favor of extending to the farmer every assistance that does not run counter to fundamental economic principles." It en-

dorsed the policy that the national administration has followed in dealing with our foreign debts and suggested that America's private surplus funds might logically be invested "in such foreign securities as give good evidence of being soundly conceived and safely secured." Attributing no small part of our present prosperity to "prompt and efficient transportation," the convention bespoke the adoption of a national policy that "will be favorable to such railroad consolidations as will conduce to the public welfare." These mergers, the Special Committee on Railroad Consolidations reported, should be considered from the standpoint of the natural flow of traffic and not a grouping of mere geographical lines without regard to whether the particular groups of carriers would harmonize and make a living.

Emphasizing "the ever-growing burden" of state and local taxation and the overlapping and competitive taxes between the Federal government and the states on the inheritance and transfer of estates, the Association recommended the outright abolition of the Federal inheritance taxes and urged "a more thorough and discriminating use of the budgetary control of revenues and expenses" on the part of the state and local governmental bodies.

REFORM in the taxation of banks is needed also, the Association asserted, as the ad valorem taxation of banks in many states has become so great a load as to seriously impair their ability to accumulate adequate surplus for the protection of their depositors. Urging the serious study of this problem by bankers throughout the country, the convention suggested that they should particularly consider whether an improved distribution of the tax burden might not be gained by basing the taxation of banks on their incomes rather than primarily on the value of their property.

Praise of the Federal Reserve System was sounded many times during the convention and the Association, which had gone on record in 1925 as urging the

extension of the charters of the Federal Reserve banks in perpetuity or for a ninety-nine year period, repeated the expression of its hope that Congress, at the forthcoming session, might renew the life of the twelve regional banks.

A Memorable Debate

NO phase of the issue of branch banking, which has been a live subject in the realm of banking for many years, was ever considered in a more candid and thoroughgoing manner than during the lengthy debate on the McFadden bill at the Los Angeles convention. The Hull amendments, which were incorporated in the McFadden bill as it was passed by the House of Representatives and which were eliminated from the measure as it was enacted by the Senate, were the subject of the spirited discussion, which started at the opening session devoted to the meeting of the State Bank Division, continued at the meeting of the National Bank Division and reached the climax when a special session of the general convention was held, resulting in a modification of the position of the American Bankers Association on this important legislative proposal, which is designed to modernize and liberalize the National Bank Act so that national banks may be placed more on an equality with state-chartered institutions.

When the last session of Congress adjourned, the McFadden bill was still in conference. The representatives of the House and the Senate had been able to reach an acceptable compromise on all differences except on one point of the Hull amendments. This provided that while national banks should be granted the right to have home-city branches in states which at the time of the approval of the Act permitted this practice on the part of their own banks. National banks in states which might later sanction branch banking for their own banks would not be entitled to the same limited privilege.

The Senate conferees insisted that it would be unfair and unjust to grant a limited privilege to national banks in some states and deny it to the national banks in other states. The House conferees declared that the amendments would confine branch banking to the present territory and, having been instructed by a vote of the House to insist on the Hull amendments, the representatives of the two houses of Congress were deadlocked when the last session came to an end. As the result the McFadden bill, containing a number of other important provisions that would enable the national banks to compete on better terms with the state banks, failed to become a law.

The resolution that was adopted by the Los Angeles convention did not mention the Hull amendments. It recited that, in view of "the existing legislative situation," it recommended the McFadden bill be passed at the coming session with four definite restrictions upon branch banking:

1. That no national bank be permitted in any state to establish a branch beyond the corporate limits of the municipality in which it is located.

2. That no national bank be allowed to set up a home city branch in any state which does not permit state banks to establish branches.

3. That no state bank be permitted to enter or retain membership in the Federal Reserve system if it has in operation any branch, which may have been established beyond the city limits after the passage of the McFadden bill.

4. That no branches which have been established after the passage of the McFadden bill beyond the limits of the city in which the parent bank is located may be retained when the state bank converts into or consolidates with the national bank, or when two or three national banks consolidate.

These provisions would limit branch banking on the part of national banks to the cities of branch banking states, forbid branches in "contiguous territory" and prevent banks from getting around the prohibition against state-wide branch banking by bank mergers.

Appeal for Fairness

THE supporters of the resolution, which had been adopted by the National Bank Division, urged its adoption by the convention on the grounds that it was only fair and just that a privilege granted to national banks in twenty-two states under certain conditions and limitations should be granted, on the same terms, to national banks in the remaining twenty-six states. The Hull amendments, rather than curb the spread of branch banking, would tend to promote it, experienced bankers declared, because the state banks, realizing that the national banks would be barred from having branches, would seek to enjoy the advantage of this monopoly.

The prediction that the Senate would never consent to adopting the Hull amendments was voiced and the Association was warned that, if it should insist on their inclusion in the McFadden bill, the whole measure, carrying many relief measures for the national banks and a provision for the extension of the charters of the Federal Reserve banks, would fail of enactment. Further delay in placing national banks in a position to compete on more nearly equal terms of opportunity with state banks will result in further surrender of national charters and the beginning of the disintegration of the national banking system, it was asserted. The preservation of the national bank is necessary if the Federal Reserve system is to be preserved, it was insisted.

Melvin A. Traylor, the new President of the American Bankers Association, at whose suggestion the special session was held when it was realized that the subject would require more time than could be allotted under the general program, made the closing appeal for the adoption of the resolutions. The Association, he said, "cannot afford to stand committed to matters of expediency at the sacrifice of principle, at the sacrifice of conscience and at the sacrifice of their honest judgment which tells them that right should and must prevail." The question, he said, in summing up, was "not so much one of whether it is favoring branch banking or anti-branch banking as it does one of whether it favors a declaration, clear cut and clean, in favor of the old-fashioned American principle of equal justice to all and special privileges to none."

Those opposing the resolution insisted that the House of Representatives on

three occasions had declared that the Hull amendments must be included if the McFadden banking bill was to become a law. Maintaining that there could be no doubt but that the inclusion of the Hull amendments would provide a more effective curb on branch banking because they would confine "the evil of branch banking" to the present territory, they argued that the American Bankers Association, opposed to branch banking, should support the more potent check. Granting the right to national banks to have home-city branches is merely the entering wedge for the more general expansion of branch banking, it was prophesied, and the start of a movement that will exterminate the independent banking system. There is no danger of Congress failing to extend the life of the Federal Reserve banks, the advocates of the Hull amendments stated, and this fear should not be permitted to play any part in the consideration.

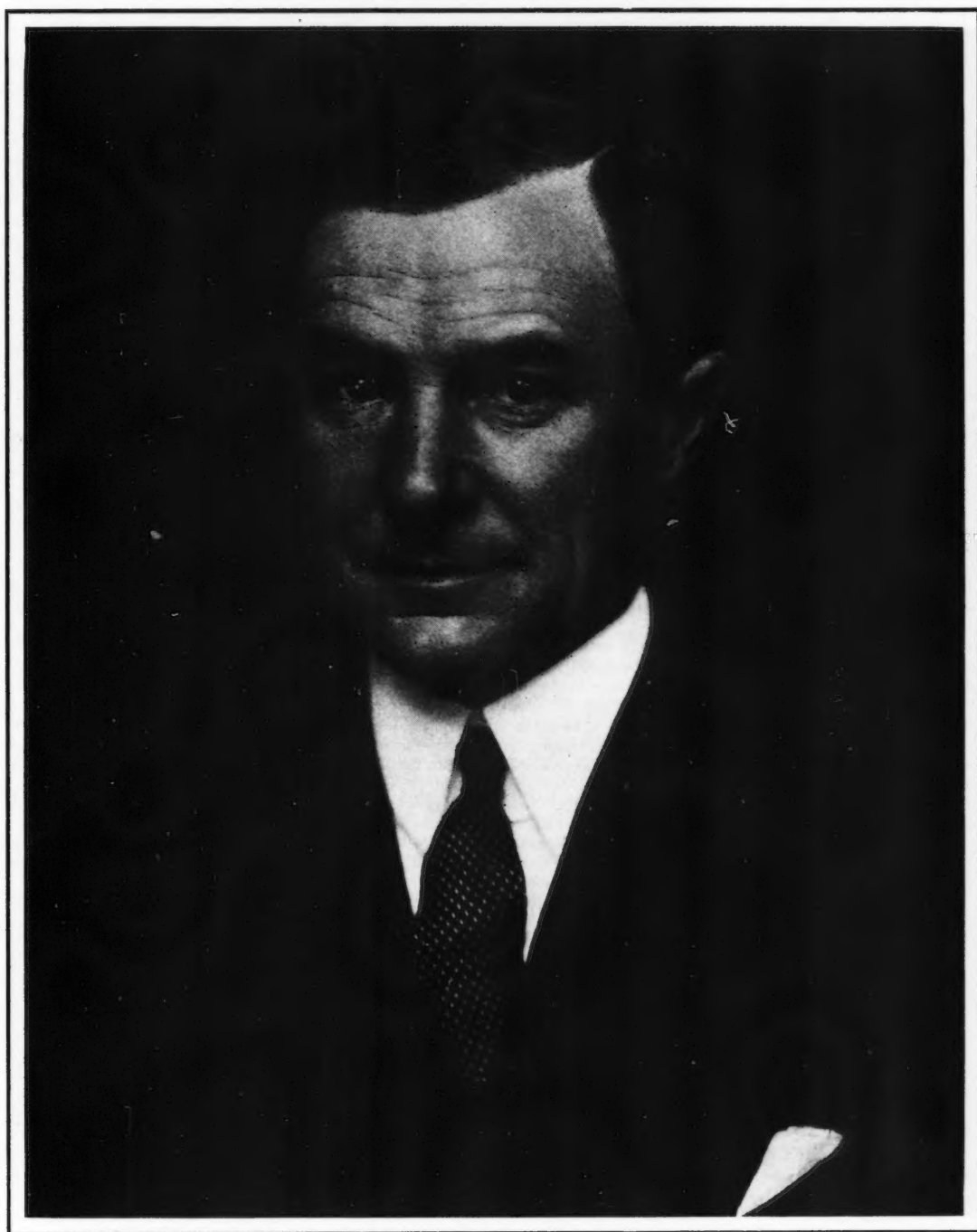
Favoring Hull Amendments

REPRESENTATIVE OTIS WINGO of Arkansas, the ranking Democratic member of the House Committee on Banking and Currency, and one of the conferees on the McFadden bills, urged the convention not to "muddy the waters" by changing its stand on the pending legislation. The only issue that divides bankers, Mr. Wingo insisted, is branch banking or anti-branch banking. He gave it as his opinion that if the McFadden bill should become a law without the Hull amendments the effect would be "the Federal government injecting itself through the interests of the national bankers into every legislature in the country, to encourage that legislature to change the law of the state, in those twenty-six states, so that they could have branch banking."

Mr. Wingo reviewed the course of the McFadden bill during the time that it was under consideration by Congress and stated that the Rules Committee of the lower house would never grant a rule enabling the House to consider the proposed legislation on the floor until a majority of the members of the Banking and Currency Committee agreed to report the measure with the Hull amendments. Urging the Association to stand by its endorsement of the Hull amendments, the Congressman said that unless it did so the next session of Congress would expire without the desired banking legislation.

After nearly four hours of sustained debate on the question, a vote was taken at one o'clock on the morning of October 6. There were 681 votes cast, of which 413 were in favor of the McKee resolution and 268 opposed to it.

In commenting the next day before the Clearing House Section meeting on the significance of the frank and candid manner in which the Association considered the question, President Wells said he thought it might be regarded as "a sort of day of rechristening." "I admit the indictment which has too often been made that the American Bankers Association, for fear of disruption, has too often been unwilling to express itself in majority," he said. "I realize the limitations of that sort of a thing, and that we cannot get into party politics. But on a matter of such nature as the legislative program on finance and banking, if we cannot



*MELVIN A. TRAYLOR,
President American Bankers Association*

in some way express our honest, real judgment of the majority without fear of disruption, then we certainly cannot be an effective organization in this country."

The Convention Program

SPEAKERS drawn from other activities of the business world were featured at the general sessions, but the meetings of the Divisions and Sections concentrated on the consideration of practical and intimate problems of banking.

Dr. Ray Lyman Wilbur, president of Stanford University, proclaimed the real unit of economics in the United States, for the man who looks ahead, to be the boy or girl, and emphasized that the great structure of American civilization depended upon how well education, discipline and ideals were instilled in them. Wiggonton E. Creed, head of a great public utility company in California, in appraising the values in American prosperity, said the cause of our social and economic progress was due in a large measure to the prevailing principles of liberty and equality where "no son of his father need stop where his father stopped."

Garrard B. Winston, Undersecretary of the Treasury, reviewed how the United States, adhering to the historic policy of rapid debt retirement, had managed to cut down the public debt. Discussing the future program of the Treasury Department, Mr. Mellon's chief aide told the bankers that if a full year's trial of the present taxes justified the belief in a higher surplus than \$100,000,000 for several years, the excess should go to tax reduction.

If there were one idea that dominated the programs before the divisions of the American Bankers Association, it was how banks could better meet the financial needs of the public on a basis that would be sound and profitable to the banking business. It is doubtful if there was ever an annual convention where more practical and concrete proposals for the improvement of banking were presented.

New Legislation Sought

THE decision was reached to ask Congress to make two changes in the banking laws. As trust funds held on deposit in commercial departments of national banks are secured by a pledge of a like value in United States or other readily marketable securities, it was voted to request that trust deposits be wholly exempt from reserve requirements. Amendments to the Federal law and modification of government practice to permit the deposit of securities for funds of insolvent national banks, postal savings funds and public money generally at the option of the bank either with the Treasurer of the United States or with the Federal Reserve Bank or any of its branches in the district where the depository bank is located will be sought. This will make it optional with the bank whether it will send the securities to Washington or to the Reserve bank or its branches



NATHAN D. PRINCE
Re-elected Treasurer American Bankers Association

in its own district. The same purpose will be served, but with less expense and more convenience to the bank having a class of funds requiring the deposit of securities.

The convention approved two changes in the Constitution of the American Bankers Association. The first declares that the state vice-presidents shall be specifically charged with the duty of maintaining and increasing the membership of the Association in their respective states under the supervision of the Membership Committee. The second provides that the membership of the Administrative Committee shall be enlarged so that the presidents of the Clearing House Section, the American Institute of Banking and the State Secretaries Section may be included on it.

Houston in 1927

HOUSTON, Texas, was selected as the city where the 1927 convention will be held. A telegram was received from the Clearing House banks of Miami, Fla., inviting the American Bankers Association to come to the Florida city in 1928, while President Machado, of Cuba, urged the Association to hold its general convention in 1928 in Havana.

Announcement was made on the closing day that more than 7000 delegates had registered at the Los Angeles convention, and the attendance, therefore, had been surpassed by only one other previous annual gathering—the New York convention of 1922.

Melvin A. Traylor, president of the First Trust & Savings Bank of Chicago, was elevated to the presidency of the Association, while Thomas R. Preston, president

of the Hamilton National Bank of Chattanooga, Tenn., was elected First Vice-President. Craig B. Hazlewood, vice-president of the Union Trust Company of Chicago, was selected as the Second Vice-President. Nathan D. Prince, president of the Hartford-Connecticut Trust Company of Hartford, Conn., was elected for a second term as Treasurer.

Mr. Wells, upon investing his successor with the badge of office, said: "I want to say that I think the Association is particularly fortunate, not only because of the qualities of fitness which you represent and the personality which you possess, but because you are an executive of a large metropolitan bank. This Association has an outstanding need, and that is the interest of more metropolitan bank executives in its undertakings. You have a contact with them, and I believe that you will be able to stimulate their greater sympathy and perhaps their greater activity."

Presentation

IN assuming the presidency, Mr. Traylor said, while he approached the task ahead of him with humility, that he had neither a program nor a hobby, but that he cherished only the desire that, when his administration came to a close, there would be no regret that the honor had been bestowed upon him.

As a token of appreciation for his services as head of the American Bankers Association, a handsome silver service was presented to Mr. Wells. The speech of presentation was made by Charles Cason, vice-president of the Chemical National Bank of New York.

"The committee wanted to have something that would appeal to the sense of beauty and the sense of utility of both Mr. and Mrs. Wells," Mr. Canon said. "This is really for Mrs. Wells. The only place Mr. Wells comes in is, he will have to take it out every time his friends call to show them he still has it. There are exactly sixteen pieces. That is the right ratio for one man to keep clean. But the committee wanted to indicate in some way to President Wells, or rather to ex-President Wells now, their appreciation. Governor Bob Taylor of Tennessee once said that just as soon as he went out of office (he held several) he got a letter addressed to him as ex-Bob Taylor. One of the most difficult joys of life is to attempt to tell our friends how much we love them. In the inadequacy of words we oftentimes resort to material tokens, not to express our feelings, but rather to indicate that they are too deep to tell.

"The road that leads from the log cabin to the presidency of this organization is not an easy road, but Oscar Wells has traveled that road with unusual distinction, in a manner that has brought a great deal of joy to those who know him and love him and followed his career," Mr. Cason remarked. "His administration will be recognized for years to come as one of peace and harmony. His decisions have been prompt, but wise. His rulings have been firm but fair; his program quiet but constructive."

The Continuation of Good Times

By OSCAR WELLS

Retiring President, The American Bankers Association

Much Depends Upon the Bankers Keeping the Credit Structure on a Sound Basis. The Country Would Do Well to Avoid the Absorption of Additional Gold in the Next Few Years. Spread of Financial Stability Abroad of Particular Importance Now.

IT has been very gratifying to the officers that the work of the American Bankers Association has passed through a tranquil year. Its functions have been harmonious, and the spirit of cooperation has pervaded all of its forces. As all will agree, this is a highly desirable element and not always found in national organizations of this kind. Under our constitution we are broken up into many parts. We present a classic example of a great need for team work. I am constrained to believe that we have had it this year to a greater extent than ever before. The credit is largely due to the accumulative benefit of having a continuous administration of the affairs of the Association at headquarters. There has seemed to exist no need to stray from the beaten paths of endeavor, and hence the Association has gone along in the even tenor of its way, seeking to improve the quality of its work at every point through the employment of the channels already established and by the agencies created through the conferences of the council members. These have provided adequate opportunity for honest, conscientious and earnest service with a fine zeal for the outcome and no incentive for the spectacular show of display.

Our Undertakings

NO one can contemplate the annals of our past efforts without realizing the vast amount of unselfishness manifested in them. Many of our present undertakings are educational in nature, even those things which have an indirect bearing upon the future welfare of our professional growth. The conception of our Educational Foundation is fraught with interest in the young men and young women of a succeeding generation, but remote from any direct value to our present membership. Our Public Education Commission is spending itself for the lasting benefit of those who may take our places, but hardly for those who may share our responsibilities. Our Agricultural Commission has as its special objective not the bankers but rather those who produce the crops from the soil.

Our trend has been toward these things of indirect value, and yet, curiously enough, they have furnished us with the richest sources of inspiration. We are concerned about business methods, sound economics, the ethics of politics and good government, but we are interested as well in education, philanthropy, public health, sanitation, better morals and all the finer graces

which constitute a higher plane of citizenship. Our convention programs are replete with topics other than those relating directly to the accustomed transactions of our banking institutions.

Fifty years ago when we wrote our constitution we offered these purposes as our reason for existing: "To promote the general welfare and usefulness of banks and banking institutions and to secure uniformity of action, together with the practical benefits to be derived from personal acquaintance and from the discussion of subjects of importance to the banking and commercial interests of the country, and especially in order to secure the proper consideration of questions regarding the financial and commercial usages, customs and laws which affect the banking interests of the entire country and for protection against loss by crime."

New Causes Taken Up

WE have not stopped there, but have added other causes and have sought to justify them. We have had differences of opinion, but we have not disagreed upon the fundamental requisites of our traditional needs as an organization of bankers and as a body of American citizens. With this professional background we have to our credit a record of steady progress toward sounder policies and higher ideals.

As with all organized bodies, and for that matter it is true with individuals, as we grow in power and influence our responsibilities increase if retrogression is to be avoided. The habits of the world change as civilization varies. The present generation of bankers has had an unusual experience in keeping pace with both the gross and net operations of their clients. A new alignment of duties has naturally followed the process by which more wealth has found its way into the hands of the bank customer, while he simultaneously has grappled with the difficulties of adjusting himself to the demands of a new and higher scale of living.

Conservatism has long been regarded as a fundamental attribute to a successful banking career. Aggressiveness has too often led its followers into the marshy or low lands of profits and even into the mire of failure. But what was conservatism before the war might be called now a stubborn adherence to the ways of a former period, and the aggression of that day would compare but slightly, if at all, with the methods of the successful but courageous bank operator of current days. Yea,

our national prosperity has grown with rapid strides and with it our responsibilities and our dangers.

These are the conditions which we must undertake to meet by the combined strength of our individual and collective efforts. This is not meant to contain any expression of doubt, but to emphasize the need of our continued cooperation as an essential to the part we may take in the future development of the nation.

Problems of National Scope

OUR responsibilities do not cease, however, by the discharge of our private obligations, nor even when we have responded to the claims of a selective group to which we may belong. We must not shirk the burden of aiding in the problems of national scope and particularly those of economic import, in which we have an abundant interest and toward the solution of which our talents may be made to play a part. In connection with these matters to which I allude as having some bearing upon the broader aspect of banking concern, it may be said that I am simply seeking to bring an interpretation of our attitude as practical economists. Of course, it cannot be regarded as more than that, for what I shall say may not find an agreement among you, and you have the profound right of having opinions contrary to these expressions.

Transportation is an ally to banking. They are kindred functions in the service of all industry. The future of the development of transportation is somewhat involved by the evolution of the present systems of steam railways and the relation of that process to the supervising elements found among the statutory rights of the government. We are interested in that future. It is not a monetary interest, though the stockholders are among our depositors and may be among the applicants for our funds as borrowers. It is in the railroad as an asset of the nation that we are most interested.

The railroads as a whole have made a splendid record in the last five years. It is conceivable that a vast expansion will be needed in terminal facilities and in double tracking, if they are to keep abreast of the industrial development of the future. It is almost inconceivable that this may be done out of surplus earnings plus the further use of credit. Credit is a fine aid to the growth of any industry, but it has its limitations unless supported by an adequate expansion of capital. The transportation

lines will need the contribution of partnership funds as reflected by the investment of the stockholder. Will that be forthcoming so long as the allurements of a dependable return is absent? The provision for the recovery of earnings now contained in the law may be necessary for the regulation of rates and to give to the Interstate Commerce Commission the needed control over the situation with respect to the distribution of advantages on behalf of shippers, but is there not danger of it becoming a short-sighted policy when viewed in the light of a desirable expansion to avoid a congestion in the future which might prove detrimental to the normal requirements of trade and commerce?

Agriculture is a basic industry. Its problems perplex the economic world. Its present status is one of a recognized maladjustment. It is true that it received a great stimulus by the demands incident to the needs of the World War, from which it has not altogether recovered. This may be accomplished through an elapse of time and hastened by the application of the increasing knowledge of scientific methods gained through a better understanding of the courses given by the agricultural colleges, the results of the experiments made and disseminated by the Department of Agriculture of our government and by the sound theories of the farm organizations, involving the benefits of the intelligent use of the principles of cooperative marketing. It is upon this theory that the Agricultural Commission of the American Bankers Association has constructed the plan of its work during the last few years. It has concentrated upon an effort to coordinate these several elements.

Politics in the Farm Problem

BUT if the mills of the gods grind slowly, the farmers of the country may not be content to wait for the results of such a solution. In any event, their impatience is being aided and abetted by the considerations of party politics. This is no longer an economic problem alone. It is a political one as well. This may be regarded as unfortunate, but it can hardly be avoided. Its solution may be retarded by partisan interference, but some legislation to that end seems now well-nigh inevitable.

The impending signs of battle between the conservative and radical elements in Congress and on the hustings of the election period are unmistakable. The effect may be one of clarification. You and I may hope for a great campaign of education, like the one through which the country passed in recent years on the subject of tax reform, or similar to the one of a few years ago on banking and currency out of which came the Federal Reserve Act. There is involved in this struggle the determination to attack the soundness of the existing walls of a protective tariff and restricted immigration. They are alleged to be artificial bars to the rightful share of the producer of agriculture in the prosperity of the nation.

We may have a superficial opinion that they do have an influence upon the operation of the law of supply and demand, in which we have always had an unshaken

confidence, and yet be unprepared to map out a course of adjustment. We may believe in both as essential to our domestic welfare and yet desire to see the farmer relieved from the dilemma of buying his supplies under the restrictions which they impose upon him while selling his surplus products to the unstimulated markets of the world. We may have the feeling that we are not ready to valorize our crops, as the Brazilian does his coffee, for the American Bankers Association has consistently disapproved of all proposals to have the government regulate or control the prices of commodities.

Our attitude in the past has been that the decline in acreage of lands under cultivation is the only effective remedy for too great a supply of farm products and resultant low prices, and that such a decline could be brought about only through the influence of those same low prices. We will be slow to abandon our conviction in the soundness of this theory, for it rests upon our faith in the immutability of the law of our fathers, the law of supply and demand. We have witnessed its operation even in agriculture during the last few years with encouraging results.

The Credit Element Again

THERE is still another element in this situation about which we hear much and will probably hear more. There is crystallizing a sentiment that more credit is needed. That is an old cry. Like Banquo's ghost it will not down.

The bankers have demonstrated a number of times their willingness to provide funds for special administration to meet an emergency in a particular industry, or to care for the unusual conditions in a given section. The same thing will be done in this instance if the established channels of credit are believed to be inadequate and the soundness of the plan to dissolve the difficulties of the farmer by the manipulation of his surplus products through the creation of a pool is without question.

In this connection it must be remembered that the Federal Land Bank has been brought into existence to absorb properly safeguarded mortgage loans on farm lands, that the Intermediate Credit Bank is designed to meet the needs of those who may want to borrow upon terms beyond the seasonal limitations, and that the local banks fortified by the rediscounting machinery of the Federal Reserve Banks are the logical handlers of all good short-time credits, such as those involved in producing and marketing the staple products of the soil.

Is it surprising that the banker wonders whether the question is one of more credit, and if the solution of the problem can be made lasting or effective by granting credit to those who cannot now borrow from existing agencies engaged in the business of lending? A large part of his life is spent in observing the tragedies which follow the use of too much credit.

The Federal Reserve

THE Federal Reserve System is our peculiar responsibility. Our organization spent many years fomenting in divers ways the demand for a reformation of our banking system and for material changes in the

issuing function of the government. It did not create the Federal Reserve Act, but without the part played by the bankers, in which this Association took a position of rank, the law would not have been written.

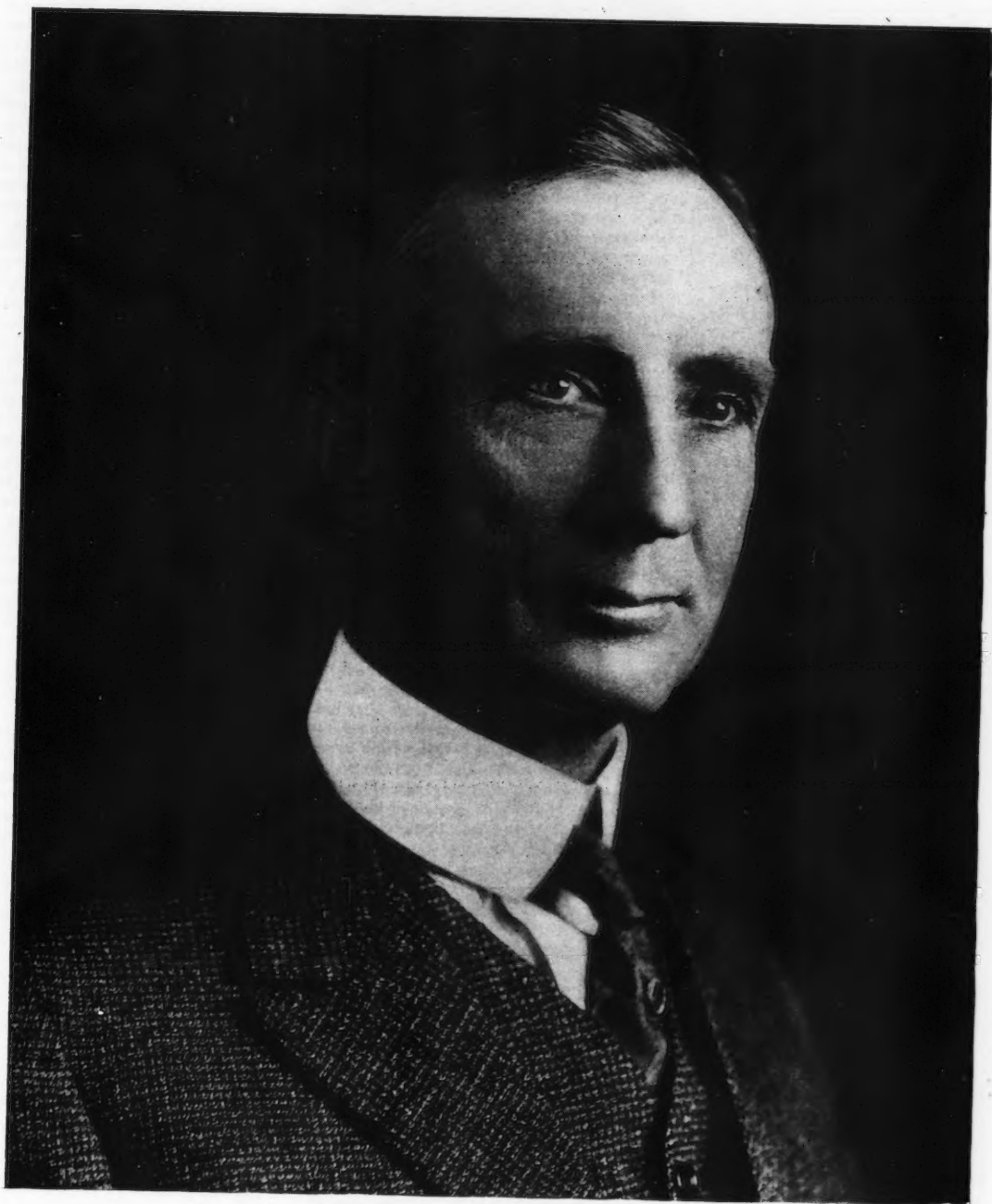
This assertion is made in spite of a popular impression that as a class we were opposed to its passage. We care nothing for that controversy. There is no point in being jealous about what we sought to accomplish. The facts are that we were more intimately concerned with the needed remedy. We were the greatest sufferers from the recurring depressions under the old order. With us it was a matter of self-preservation, to say nothing of our interest in the disturbance which every panic brought to general business conditions involving the affairs of the producer, the manufacturer and the merchant, and those of all others dependent upon them.

From our vantage point we saw more clearly the necessity of having an elastic currency and of creating a more dependable source for a supply of credit. We realized, as others may not have done, from our own experience that these might be afforded through the establishment of independent reservoirs into which reserves might be placed and kept. We were willing to furnish both the capital and the volume of business needed to sustain these units, and that they might function toward these desired ends, to forego both profits and volume in our own institutions. Such was the quality of our faith.

We know now that the banks, the government and the country need these twelve regional institutions as continuing elements in their interwoven relationships. We believe that they should be constituted in a more permanent statutory fashion and administered with a minimum interference from both the executive and legislative arms of the government and by the best talent which may be induced to enter into membership in the supervising and governing body. Our special prayer is that their charters shall be extended for an indeterminate period, and our judgment is that their fate should not be obscured by the consideration of any other changes in the law or become uncertain by deferring too long this legislative act upon the part of the Congress of the United States.

Federal Legislation

SO much has been said about branch bank legislation, which means, of course, the McFadden bill pending before Congress, that I despair of adding anything not already familiar. For the same reason it seems almost unnecessary to recall the fact that the Association, through an act of its 1924 convention, went on record, without an opposing vote, in favor of the proposed law including the Hull amendments, at the same time instructing its officers to aid in securing its passage with those specific provisions. That mandate has since been followed with all of the diligence and earnestness at the command of those charged with the duty of executing it. No compromise has been made and no authority has been assumed to do otherwise than obey the organic law of this body as created in its resolution. Because of the partisanship which this measure has engendered among our members it has



THOMAS R. PRESTON,
First Vice-President American Bankers Association

not been possible to perform this duty without incurring some dissatisfaction from both sides of the controversy. Those who have expected much have demanded most, whether protagonists or antagonists, and we have become the victims of their disappointment.

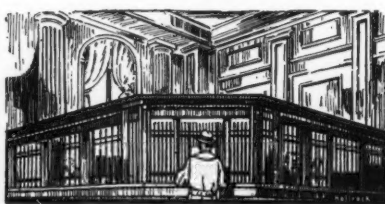
Congress adjourned in July with a deadlock between the House and the Senate on a single point of issue, that being the right of national banks to have city branches in states which may hereafter sanction the practice of branch banking among state-chartered institutions within their own confines. The liberty of state banks to have branches in the Federal Reserve System in the non-branch banking states was likewise involved. The House conferees adhered to our theory of an effective inhibition to the further growth of branch banking while those of the Senate opposed. This is the status of the McFadden bill at present, and when Congress meets again in December the conference will make further attempts to reconcile the respective differences of the two houses on this question.

While there can be no doubt of the fixed attitude of this Association with respect to this important legislation, it may as well be admitted that the divergence of views concerning it is not confined to the members of Congress. There are so many cross sections of opinion and such an opportunity for conflicting interests upon any controversial matter of consequence, in the fields of finance, politics and economics, as to make unanimity well-nigh impossible. It is quite common for an association such as ours to express the will of a majority assembled in convention as the means of reflecting its judgment and for the purpose of exerting an influence in a given direction, but that is not usually regarded as binding upon the individual member to the extent of keeping him from forming and expressing a contrary conviction. We would not have it otherwise, for there is wisdom in the clash of opinion honestly given and intelligently expressed.

This situation has its complications. It is not so simple a matter as branch banking or anti-branch banking. There are those opposed to branch banking who do not favor the Hull amendments. There are officers of national banks both for and against the restrictions placed upon the future rights of national banks in the twenty-six non-branch banking states. Under such circumstances it is not hard to discern the reasons for the fault-finding to which the officers of the Association have been subjected, even though the way has been clearly charted and the course rigidly followed.

Affairs in Europe

NO analysis of conditions in our own country can fail to take account of those which obtain in other countries, particularly those in Europe. A year ago we had high hopes of a substantial improvement in the economic affairs of all of the nations involved in the prosecution of the World War. There is some question as to whether during that period the advancement in some parts of the affected area has not been offset by the development of further somewhat stringent difficulties in others. A mixed situation exists. The beneficial infection of rehabilitation, started in



a somewhat experimental way in Germany through the operation of the Dawes plan, has not spread to other nations, as we had hoped it might, even though its functions there continue to afford a satisfactory degree of encouragement. The problem is still one of currency stabilization and balancing of budgets. It requires time and, above all, leadership. Confidence in the outcome may be expected to follow the more serious steps now being taken toward the increase of taxes, the reduction of imports and a rigid adherence to the practice of both personal and governmental economies.

The major problem which looms before the nations of the world is that of the war debts. Americans believe in their validity, and our government has moved upon a theory that an agreement should be made in each case as to the amount, terms of payment and a rate of interest. Some progress has been made, and all of the great powers have reached the stage of negotiations which include the ratification of treaties except France.

In the course of these parleys the theory of an abatement in one form or another has been established. This has given rise to many expressions of opinion on a term which we now know as capacity to pay. Although it is uncertain and somewhat illusory, it serves to convey the idea that has doubtless been uppermost in the minds of those who have acted in behalf of our government, including the Executive, members of the Congress and the Debt Funding Commission. Other theories have been advanced and the range has been wide, running from amounts greater than those included in the negotiations up to entire cancellation. The tendency to revise further seems to be reflected in the continued discussions.

Curiously enough, while the conclusions of the varied groups of debt advocates are different, their supporting arguments are much alike. Nearly all of them include a mixture of consideration for the debtor, the possible danger of a reflected damage to our position in the matter of comity among nations, and the probability of a lesser sum turning out to be a good investment. There is a strong flavor for doing the thing which will meet the standards of economic soundness in all of these tentative plans. In any event, the objective sought recognizes the necessity of preserving the future economic healthfulness of the debtor nations.

The Views of a Banker

BANKERS, above all others, have learned the value of appraising the liquidating power of those who may be in default or who may be suffering from debt oppression. The principle here is much the same, and, if I may take the liberty of interpreting the attitude of this group, I would say that though we feel that our government

has been practical, broad-gaged and liberal in dealing with our debtors in the matter of these debt settlements, our influence will be exerted in favor of a policy of making such terms as may be necessary in order that the sums to be collected may not be burdensome beyond the ability of the debtor countries to bear. We would rather err on the side of moral fairness and economic reasonableness. One would need the vision of a prophet to undertake at this time a forecast of the outcome of this perplexing situation. It is not strange that the issues involved in it continue to afford opportunities for public opinion to occupy itself.

There is yet the troublesome element of assessing the reparations and fixing the extent of their influence upon the various inter-government claims and obligations. Among the considerations to be given to the final understandings, upon which a settlement must rest, are those involved in tolerance, sympathy, a mutual faith and confidence in the purposes of both of the contracting parties. Unless the populations of the various countries are actuated by such principles of mutual regard for the viewpoints of those with whom they differ, the settlements will not be made on the right basis.

It is to be deplored that some symptoms have already presented themselves as reflecting a spirit of critical suspicion concerning the righteousness of our position. Even so when difficult problems need solving we should abstain from developing the habit of finding fault. No enduring agreements can be made through acrimonious debate, and, being the creditor nation, we dare not ignore the greater responsibility for making a program which will include no more than is practically obtainable and at the same time is compatible with an early return of normal economic relationships. This would be in keeping with the circumstances under which America entered the war.

Nearly one-half of all of our exports are sold in Europe, which accounts for our interest in the restoration of the purchasing power of the European countries and the maintenance of accustomed trade relations. It is conceivable that impoverishment might easily prove to be more costly than debt adjustment.

Affairs At Home

WE are in a state of great prosperity. As a result we are the cynosure of the eyes of the world. Our industrial output is exceeding the estimates of the trade enthusiast, and our record for efficiency is beyond the dreams of the expert. Notwithstanding the continuity of the high wage level, the demand for labor increases. It must be understood, of course, that while the general run of industry is prosperous, the conditions are not uniform in all lines. Some are yet suffering from the reaction of the abnormal stimulation of the war period while others are reaping the profits of a resumed activity, and all are under the influence of the needs of their respective localities.

These general conditions prevail in spite of the fact that they are not sustained by the calamities of other nations. We have not been aided by the unemployment of Eu-

rope, though we have withstood the handicaps of her deranged purchasing power and the confusion resulting from her delayed adjustment in exchange and currency values. We are competing with the rehabilitated foreign industries operating under the advantages of a depreciated exchange, as reflected in the cost of labor, and impelled by every natural incentive for seeking an increased volume of business.

As a group we are concerned about the future. We rarely enter the field of prediction, but we are strong for making deductions by analysis. The continuation of good times will depend on many things but on none more surely than the character of management which may be given to the affairs of business. Prosperity is the result of a steady production in all lines, affected but slightly by speculative motives, responsive to genuine consumption demands and without undue stimulus by credit. Just here enters the responsibility of the banker. So long as our industries expand normally, in response to the growth of population, or the changes which come legitimately with invention, or by virtue of popular taste and the increase in purchasing power, undisturbed by price or credit inflation, prosperity will be maintained.

World prosperity will help us, for a prosperous world cannot supply many of its wants without turning to the markets of the United States. We have had, however, the experience of adjusting our affairs to the conditions of an unprosperous world, which we may continue to do with a fair degree of success if we will but maintain a regular distribution of goods among ourselves. If we waste our capital; if we make a lot of unproductive investments on which there will be no returns for a long time; if in the hope of quick profits it becomes common policy to use an undue amount of credit in proportion to capital, our prosperity wagon will inevitably 'bring up in the ditch, as has often been the case in the past.

When the Expansion Halts

ALTHOUGH fundamental conditions are encouraging and prospects may well be considered fair, bankers know that sooner or later the growth of our expansion will receive a halt. It has been so in the past and often enough to convince us that it will be so again. When the test comes much will depend upon the soundness of the credit structure. Bank credit has been abundant for a long period. In the nature of things it cannot healthfully continue to expand as it has done in the past two years. Prudent financiers are convinced that our country would do well to avoid the absorption of additional amounts of gold during the next several years. To this end it would be to our advantage, as well as to the advantage of the world, if more of the countries of Europe found a way to carry out their desires of reestablishing the gold standard. As the chief creditor nation we are interested in the spread of financial stability among other nations. Then, too, an inflation of credit here with a consequent rise in prices would have an unfavorable influence upon our competitive trade position.

In discussing the growth of industry, there may be included the fact that there is now a better diffusion of well-being among the people and on a higher level than ever before here or elsewhere. We like to think that a part of this is due to the adequacy of our great banking system. We are willing to believe that some of the credit belongs to our members for the skillful manner in which the credit situation has been handled during the last several years under new and somewhat unusual conditions. We have been prudent in the granting of credit though the country has been prosperous and expansion has been the established order. Men in business have not usually been timid in good times. What of the future? We may have reached the crest of the wave. A decline may be impending even now. Economic prosperity consists of many inter-

woven and interdependent elements. If a major activity should get out of balance the result would be at once transmitted to many lines of operation. The real test of the sufficiency of a banking system and of the soundness of credit conditions comes when business grows slack rather than when it is expanding. We come then to know whether bankers have been wise in the conduct of their portfolios.

The Real Issue

LET us take a broader view and a somewhat 'longer look into the future as it relates to this business in which we are engaged. After all, the real issue before the American Bankers Association is the one involving the manner in which it will be able to meet the demands of a rapidly changing development toward which bankers must advance by a marked degree of preparation. In order to prepare one must have vision.

We are told that a new industrial revolution is under way in the world. Modern machinery and new sources of power are taking the place of human labor. Increased outputs are the results of better management and mass production. A greater share is available for the individual worker. The process is in operation here and in Germany and Italy. In time it may find its way into England and France, though probably not in the immediate future, and not until labor and industrial conditions change.

We have passed through a remarkable era in the distribution of credit, and yet the opportunities for its employment at home and abroad for the expansion and operation of industry may exceed anything that we have yet seen or imagined. Will we be able to meet the requirements of this new situation? It may mean the creation of more and larger banking units. It would mean supporting and expanding the Federal Reserve System. Have we enough local bankers who are nationally minded and a sufficient number of metropolitan bankers who can think in international terms?

The Bankers' View of American Prosperity

(Resolution of the A. B. A. Convention)

THIS country has been enjoying a long period of sustained prosperity for general business. The profits of trade, industry, and transportation for the year 1926 will probably exceed those of any previous year. Wages are high; employment is general, and credit conditions are thoroughly sound.

For the first time in the experience of this generation we have had a period of exceptionally active and prosperous business, combined with conditions of cheap and abundant credit, and an almost steadily declining level of general commodity prices.

Agriculture

THIS falling trend of price levels has not been confined to this country. It is world-wide, and in most other countries it has been under way for a longer period than it has here. Both in this country and abroad this general decline in the price level of commodities has had the unfortunate ef-

fect of reducing the incomes of the farmers and rendering conditions more difficult in the agricultural districts. The reason for this is that when the price levels of wholesale commodities move downwards, they always tend to change more rapidly than do wages, so that the incomes of the farmers are reduced promptly, whereas their expenses for hired labor and for taxes which reflect the cost of labor are reduced much more slowly.

Because of the nature of his business the farmer cannot readjust his methods to meet such a change nearly so rapidly as can the man engaged in trade, or transportation, or industry, and so he suffers more severely in a period of declining prices. It is true that these economic laws reverse their effects and operate to the advantage of the farmer when prices rise, as was demonstrated during the war years, but that phase of the matter does not concern us at this time.

We favor extending to the farmer every assistance that does not run counter to fun-

damental economic principles. Ample supplies of credit are available to farmers at inexpensive rates. We favor the fostering of properly devised and well-conducted plans of cooperative marketing. The worldwide decline in the general price levels, to which the difficulties of the farmers are primarily attributable, cannot continue indefinitely, and it is our profound hope that a period of relative price stabilization will soon begin.

Foreign Loans and Debts

DURING the years that have elapsed since the outbreak of the Great War American funds have been loaned abroad in large amounts, and our foreign loans are still increasing rapidly. Recognizing that this is a logical field for the employment of our surplus funds, we urge upon American bankers and private investors the desirability of utilizing every opportunity to familiarize themselves with conditions in other

countries, in order that they may intelligently participate in the purchase of such foreign investment securities as give good evidence of being soundly conceived and safely secured. We endorse the policy of our National Administration in dealing with the foreign governmental debts. We view with satisfaction many signs of economic recovery in Europe, and approve sympathetic and helpful consideration of the problems which the situation there presents.

Railroads

OUR railroads are now operating with a higher degree of economy and efficiency than they have ever before attained. Our national prosperity is dependent upon them, and it is primarily because the railroads have continuously supplied prompt and efficient transportation of goods that this country has been enabled to enjoy a long period of industrial activity and sustained prosperity without any accumulation of excessive inventories which in former periods of general business activity have resulted in over-production and in credit stringencies.

We favor the adoption of a policy by our National Administration at Washing-

ton, and by the Interstate Commerce Commission, that will be favorable to such railroad consolidations as will conduce to the public welfare.

Taxation

THE ever-growing burden of state and local taxation is becoming a detriment to the development of trade, industry, transportation and finance in this country. We recommend to all state and local governmental bodies a more thorough and discriminating use of the budgetary control of revenues and expenses. Upon our own membership we urge the need for a more general participation by bankers in the public affairs of their own communities, with special reference to the service they may render in connection with taxation and public expenditures.

Under existing systems, the Federal government, and many of the several states, impose separate, overlapping and competitive taxes on the inheritance and transfer of estates. These duplicated imposts are productive of much unnecessary delay and litigation, and seriously increase the expenses of administration. We hold that the problems involved are such that they should

properly fall within the purview of the states rather than of the nation, and we recommend the abolition of all Federal inheritance taxes.

Reform is needed also in the taxation of banks themselves. In many states the ad valorem taxation of banks has become so great a burden as seriously to impair the ability of these institutions to accumulate adequate surplus for the protection of their depositors. We recommend that the officers of banks study this problem, that they investigate various systems of bank taxation now in effect in different localities, and that they endeavor to ascertain whether or not a more equitable distribution of burdens might not be affected through basing the taxation of banks on their incomes rather than primarily on the value of their property.

The foregoing resolutions on business conditions were presented by a committee of fourteen bankers of whom Thornton Cooke of Kansas City was Chairman. The other members were Leonard P. Ayres, secretary; E. R. Black, Charles W. Boyden, C. W. Carey, C. C. Colt, Edward J. Fox, Eugene P. Gum, R. E. Harding, William E. Knox, Frances H. Sisson, Dan V. Stephens, Rome Stephenson and E. S. Wolfe.

A Word of Caution on Installment Selling

THE Administrative Committee of the American Bankers Association instructed the Economic Policy Commission to make a study of installment selling and to prepare a report for presentation to the Association.

The Commission, recognizing the great importance of the subject to the banking profession, as well as to all other commercial and financial interests of the country, devoted much time to a critical investigation of the subject. It presents this brief summary of its views, which are based on facts and figures gathered from many sources and on the practical experience of the bankers composing its membership:

THE practice of selling merchandise to be delivered at once and paid for in installments is neither new nor in itself objectionable. From pianos, sewing machines, etc., installment buying has in recent years spread rapidly to automobiles, phonographs, radios, washing machines, refrigerators and to many articles of luxury, until it has reached a point where it has become an important factor, stimulating production and affecting the whole economic life of the country. The rapid extension during the past few years of this system of merchandising has lately attracted public attention and has become the subject of some apprehension to bankers and other students of economics. The rapid growth of the amount of this character of business is probably best shown by reliable statistics which indicate that the amount of sales of installment goods in this country during the past year was well in excess of six billions of dollars.

As a result of this enormous growth, the fear is frequently expressed that installment selling will gradually change the habits of

our people and in a measure undermine the soundness of the economic structure on which American business is built.

While the mass of information collected by the Commission leaves no doubt that there has been a large increase in the volume of business handled on the installment plan, there appears no evidence proving that the economic structure of the country has been undermined by undue inflation of credit. During this same period, savings deposits and annual premiums on life insurance policies have also shown a substantial increase. This increase might have been even greater if the large volume of installment selling had been kept within more moderate bounds.

SINCE installment selling reached its present volume, there has been no practical test of the effect which a depression will have on installment business or of the effect of installment business upon a depression. However, the fear is frequently expressed that in case of an industrial depression the steadily increasing installment burden will create a large volume of frozen credits, because there is seemingly little doubt that wage reductions and dismissals may result in the non-payment of a considerable volume of these outstanding obligations. It is, furthermore, apprehended that in a period of depression the purchasing ability of the people will be materially reduced and that the volume of business of many manufacturers will decline in a like ratio. Manufacturers, banks and other financial institutions may then be tempted to resort to unsound practices by further reductions in the amount of the down payment and the extension of the period of time in which installment payments must be completed.

The commission is of the opinion that the selling on the installment plan of various kinds of merchandise of inherent and durable value has a proper place in the economic and business structure of the country. It believes, however, that a word of caution is in order at this time lest this practice be carried too far and that our people mortgage their future income to such an extent that serious embarrassment would result in the event of a business depression. It further believes that such a reaction from the over-extension of installment selling would not only affect those interested directly in the deferred payments. It would also cause a curtailment of the production of those industries which had been greatly stimulated by installment selling, as their prosperity has been coincident with the rapid extension of this system of merchandising.

THE commission therefore recommends to all those who are genuinely interested in installment selling that they carefully guard against any departure from recognized sound business principles and against any undue extension of this practice, so that our people may not be encouraged to buy on deferred payments beyond their reasonable ability to pay under conditions less favorable than those that have prevailed recently. Installment selling, properly safeguarded, will not impair the soundness of our business structure. However, rules and regulations must be established and observed which will fix the amount of the down payments and the maximum time required for the liquidation of the debt, so that these may bear a suitable relation to the nature of the merchandise in question.



CRAIG B. HAZLEWOOD,
Second Vice-President American Bankers Association.

Colonial Money Transport

(The Journal Cover Picture)

IN strange contrast with our present facilities for the transfer of money or credit, is the picture by Walter de Maris on the cover of this month's JOURNAL of one of the first great and important money transfers made in this country.

When, during the dark days of the American Revolution, Robert Morris, the financier of the Revolution, succeeded in obtaining a consignment of money from France, the French frigate *La Resoule* which bore it across the ocean dropped anchor in Boston harbor instead of Philadelphia where she was expected to make port and it became necessary to transport it overland through a country which might at any time be occupied by the enemy.

"MORRIS himself," says the Journal of American History, "planned every detail of the journey, selecting for this important mission Tench Francis, a trusted business friend.

"With him went Major Samuel Nicholas, and they carried letters to General Heath, who was in command in New England, to John Hancock, and to Captain DeLangle. Francis was instructed to purchase a sufficient number of oxen, six years old, and horses, from seven to ten years old, on the best possible terms. The animals, said Mr. Morris, can be sold in Philadelphia for more than they cost in Boston. A considerable part of the money was to be invested in good bills of exchange, and the coin which remained was to be carefully boxed and loaded. It was in bad shape, and Mr. Morris directed that it should be weighed.

"SO much of the coin as was to be transported was to be packed in small square boxes made of strong oak boards, each box to contain 1500 or 2000 crowns; these boxes, to the number of about twenty, were to be

placed together in a great chest constructed of thick oak plank. The lid of the chest was to be well nailed down and it was then to be set upon the axle and tongue of an ox-cart, from which the body had been detached. Heavy iron straps were next to be fixed round the chest, crossing each other, to fasten it to the cart, and be welded by a blacksmith so that it would be impossible to open it or take it from the carriage until it reached its journey's end. Each chest was to weigh about a ton, and to the cart which held it Francis was directed to attach four oxen led by one horse. The axles and wheels were to be of unusual strength, as the roads over which they were to go were very rough.

"EVERY movement was shrouded in the darkest secrecy. Francis was instructed to publish his route, as he crossed the Hudson, and while near it, different from that which he actually was taking, and to inform General Heath, so that the army could cover his movements. Francis left Philadelphia on September 11, with Morris's parting wish that, when he came back, he would ask no 'extravagant recompense.' 'The pleasure of serving your country,' said the Superintendent of Finance, 'and the confidence which is placed in you will be a more agreeable part of your reward, and I hope the event will justify that confidence and give joy to every friend of the United States.'

"THE task of transporting the coin occupied nearly two months, but it was successfully executed, for on November 6, Major Nichols came into Mr. Morris's office and announced that Tench Francis and his ox-train were, when he left them, sixteen miles from the city. In a few hours the treasure arrived in Philadelphia."

The Bankers' View of the Benefits in Railroad Consolidations

Time Has Come When Carriers Must Resume Processes of Logical Enlargement. Five-Year Basis Should Be Used in Figuring What is Fair Return on Capital. Mergers Should Be Along Natural Lines, Not Forced by Congressional Mandate.

SINCE the history of American progress parallels that of transportation, and in order to maintain the pace of this wondrous age, the railroads must be placed in better shape to attract capital.

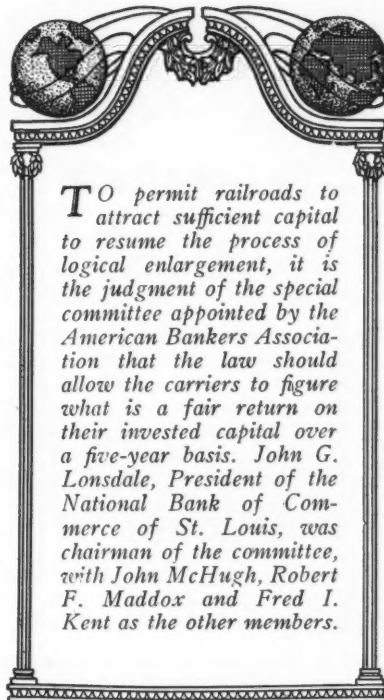
This committee has approached the problem of rail consolidation, or unification, as an economic rather than a political question, because the ownership of the bonds or underlying securities of the railroad systems is largely in the hands of savings banks and insurance companies, who, in turn, represent a legion of many millions of policy holders, depositors and small investors; and because the distribution of the channels of commerce anticipated in rail consolidation is a mighty responsibility, wherein one section of the nation should not gain at the disadvantage of another, but for the general betterment of the nation; and, further, the railroads are the greatest single industry of the United States.

Time For Enlargement

NATIONAL transportation, now approaching the three-quarter century mark, is entering upon a new era. First, it was fostered in an epoch of public encouragement during which time governmental grants and subsidies were many; then came consolidations that gave birth to the great systems of today, a process arrested by anti-trust legislation. Next came the period of regulation through the Interstate Commerce Commission, which, despite many grievances, bore some beneficial results. This control was followed by an interval of careful management, returning public confidence and better service.

Now comes the time when the railroads must resume their processes of logical enlargement, that the nation may keep step with its heritage of progress. Let us call it the era of justifiable consolidation or the adaptation to our common carriers of America's effective principle of massed production; or, more correctly, transportation is in evolution toward massed distribution to care for the tremendous production developed by the unified industrial growth of this still young nation.

It is most apparent that logical consolidations are not necessarily a grouping by mere geographical lines, connecting dots on a map, or even coordinating sections without regard to whether these particular groups would harmonize and make a living. Bringing large properties together is a slow and difficult process. After the financial and legal phases have been accomplished, the physical adjustments are perhaps the most



TO permit railroads to attract sufficient capital to resume the process of logical enlargement, it is the judgment of the special committee appointed by the American Bankers Association that the law should allow the carriers to figure what is a fair return on their invested capital over a five-year basis. John G. Lonsdale, President of the National Bank of Commerce of St. Louis, was chairman of the committee, with John McHugh, Robert F. Maddox and Fred I. Kent as the other members.

difficult. There are the rights of local communities, the interest of labor, consideration for things dear to precedent. In England many of these stumbling blocks have appeared, and in order to eliminate them without needless friction, it is taking a long time for the real economies to assert themselves.

Nature and her products seem to be the real key to the situation; affiliation of routes endowed with a balanced proportion of raw materials and manufactured products, or any balanced exchange that supplies both-way traffic; the coordination of lines of reciprocal rather than identical needs, minimizing through a diversity of traffic the hazards of sectional or crop blights. Consolidation, then, should be considered from the standpoint of the natural flow of traffic, because no one railroad nor any single railroad system in existence at this time can prosper on the traffic which both originates and ends on the rails of that system. Each system should be made so strong and self-reliant as to be able to withstand the vicissitudes resulting from all forms of depression.

Unification brooks no disregard of eco-

nomie laws, so that merging should be a deliberate though delicate task. Any railroad gerrymandering would interfere decidedly with our common prosperity.

Any one-sided relationship, or the unwise assumption by the strong roads of the burdens of the weak, only leads to the breakdowns of credit in which the public must eventually foot the bill. In this connection it is estimated that there are some sixty to seventy thousand miles of railroad in the United States that cannot make a living. How much of this would enter into the unification plan is at the discretion of the Interstate Commerce Commission. However, it is not hard to realize the natural reluctance of profitable railroads to tie up with unprofitable lines. Apply the same theory to any other business enterprise and the application hits close to home. Besides, the time when the abandonment of the truly unprofitable mileage of this country would be a community calamity has passed with the coming of the motor truck, and it is just as unwise and unsound for losing railroads to be maintained by the public as for any form of business to be publicly subsidized.

Yet this committee is deeply mindful of the fact that consolidation must be done in a way to be beneficial, at least not detrimental, to the communities served by the railroads, and if, in the process of voluntary consolidation, important units are not included, then provision must be made to care for the worthy ones.

The Weak Railroads

BUT it is wrong alike with railroads, banks, grocery stores or shoe shops, or any business, to saddle a strong unit with an undeniably weak one. If it is fully established that the road is a weak property, one of two things must eventually happen: If not able to earn operating expenses and taxes, it should be placed in the "observation ward," with the view that it might be necessary to have it taken up and abandoned; or, if not able to earn something over expenses, its capital obligation should be reasonably adjusted to its earning capacity.

This latter course is especially advisable where unification of the strong with the weak seems imperative to prevent hardships to dependent communities. It would be unwise for such consolidations, undertaken to avoid abandonment, to be effected on a basis of making good the improvident or unfortunate investments in the weaker road.

The really profitable and logical small lines have a natural protection in a consolidation program, in that many of these short lines, with limited physical value, show substantial net incomes by reason of a profitable division of the through rate. Present law forbids duplication of facilities, so that, in the event of unification, the owners of the small lines are apt to receive favorable attention based on their income.

Improve Rail Financing

DESIRABLE groupings of this sort would adjust the inequalities of earnings among carriers, simplifying immeasurably the now vexing problem of short-line financing. For, while under the Transportation Act these dependents can borrow from the government surplus fund, the requirements are such that they could as well and as easily get the money from their bankers.

The question of financial significance of consolidation is one that has naturally received much attention from this committee. Frankly, we have encountered from the public no general opposition to or demand for consolidation. In its present form it is properly a matter of moment to rail executives, stockholders, forward-looking business men, economists, statesmen and financiers. The shippers are not voicing their concern, if they have any, for the practical ones can see no immediate rate amelioration, and rail service is admittedly of such standard now as to cause them little anxiety.

But this deduction of supreme importance is patent: A more complete transportation system is necessary for the prosperity that is to be, and to this end capital must be attracted to railroad investment.

One economist has pointed out that in 1923 there were 14,400,000 corporate stockholders in the United States as compared with 4,400,000 in 1900. But this increased public ownership did not go into the vital industry of railroading, for the holders of such stock ten years ago were 500,000 as compared with 800,000 Class 1 road security holders today. A pitiful increase by comparison to other utilities.

A Fairer Fair Return

IT seems essential that the greatly improved credit of the railroads at present, so largely the result of efficient and economical operation, should not be impaired, but still further strengthened by the financial methods to be employed in effecting consolidations. In general, we believe that the government, exercising such minute control of our common carriers, cannot escape—though no such tendency is noted—the responsibility of affording to the owners of rail property the legitimate expectation of every commercial proposition, a fair return on its value; and if the moderate return of 5.75 per cent permitted but not guaranteed, which few roads have reached, is wholly inadequate to attract capital to the enterprise of transportation, adjustments should be made on the average of five-year instead of one-year periods.

This, with the patent influence of consolidation diffusing the earnings in such a way as to make a more even distribution of the revenue paid by the public for transporta-

tion, should restore much of the attractiveness of rail securities.

Railroad executives and the Interstate Commerce Commission may be relied upon to protect the growing confidence of the investing public by not increasing the ratio of debt to equity by sanctioning any unwise combination of ill-assorted elements.

All proposed natural consolidations so far have clearly and properly laid out the terms and financial arrangements upon which the consolidation was to be effected. Every such plan has provided for the issuance of capital securities (stocks or bonds) and the exchange of the new securities for the stocks and some or all of the bonds of the corporations to be merged. For the protection of the investing public, no other plan should be considered, for there cannot be a genuine plan of consolidation if the properties do not indicate the common denominator to which securities are to be reduced and the ratios on which the old and new securities are to be exchanged.

The Certain Benefits

THE benefit most certainly to be counted upon is that of improved and more efficient transportation service. The advantages of coordination in train schedules, car supply, etc., of substitution of one-line hauls for two-line or three-line hauls, of the better distribution of fuel supply, of the more complete utilization of equipment and of terminals, elimination of switching, standardization of materials and concentration of purchases are obvious. There will undoubtedly be some substantial economies in the elimination of inter-line accounting, doing away with the wasteful forms of competition, in undesirable duplication of capital expenditures, and so on.

But, inasmuch as the great bulk of a railroad's expense is the wages of labor and cost of materials and supplies, and knowing that rates must suffice to yield a fair return on the value of the property devoted to transportation—factors which cannot be materially changed by consolidation—this committee deprecates urging, as a reason for unification, that a material reduction of rates will follow.

There may be—although the promise seems remote—a better basis for a new national rate policy in a country of fewer but larger rail units. Custom and precedent seem to have given us our rate fabric and its attendant conflict for advantage of section against section, industry against industry. Only through a fundamental revision would unification aid, because, as now practiced, a much larger percentage of the tonnage is shipped on the commodity rates established for the development of various industries and sections than on the so-called classification rate basis.

Consolidations should not be of such magnitude as to make it difficult for the system to be developed and operated by a single management. That roads can reach a point where size does not increase efficiency and economy of operation is shown by the general figures for 1922. As the size of the system increases, the ratio of expense of the central organization appears to decrease until the ratio of 2.50 per cent is reached. Past this point, regardless of the size, the reduction ceases.

The limit of mileage successfully directed by one management may differ with the density of traffic, but experts generally point out that the units of consolidation should be large enough to effect economies possible in supervision and yet small enough to avoid over-centralization, loss of personality in management and inefficient forms of bureaucratic control.

Compulsion Un-American

OUR conclusions against any form of compulsory consolidation can be easily substantiated. No one is more conscious than the railroads themselves of the fact that they owe their corporate existence as public utilities to the service rendered the public.

Congress and legislatures admittedly have certain lawful control over them, but only so far and to such degree as they do not destroy or lessen the value of such individual properties. In other words, they should not have the right to regulate these public utilities to the degree that they confiscate the property either in whole or in part. If such a condition can be forced upon railroads, then no other properties are exempt.

Inasmuch, therefore, as the Interstate Commerce Commission, after years of effort, have announced their inability to formulate a general plan of compulsory consolidation, and the entire scheme of forcing business men to do something with their own capital that may be against their own best judgment has been accepted as un-American, the repeal of this portion of the Transportation Act seems a popular and desirable course.

New enabling legislation is essential to correct and supply a substitute for the demonstrated defects and shortcomings of the consolidation provisions of the Transportation Act of 1920. Another oversight is the failure to provide adequate machinery and to confer clearly corporate power upon the railroad corporations to carry out any authorized consolidation, or to carry on after effecting such consolidation. The charters of few railroad companies confer the necessary corporate power to consolidate.

It is doubtful whether the linking of consolidation to federal valuation is feasible. The provision of the present act is that the capitalization of the company formed by consolidation must not exceed the aggregate federal valuation of the combined properties. Thus, consolidations will be delayed pending the valuation. In effect, it compels the railroads to pay for the privilege of consolidation a price they are reluctant to pay, namely, the acceptance for all time of the correctness of the government's valuation.

It seems advisable that Congress give some thought to a removal of these restrictions, providing a legal approach to unification by corporate consolidations, through acquisition by one carrier of the physical properties of the other, or control of carriers through purchase of stock.

Resume Natural Enlargement

CONSOLIDATION is not a new thing. The present large railway systems are made up by reason of the consolidation of numerous smaller companies. In 1890, legal

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The Plans of the Foundation

By J. H. PUELICHER

Chairman of the Board of Trustees of the Foundation

The Gift of American Bankers to Economic Enlightenment in the United States Creates Great Possibilities. Scholarships To Be Awarded for Use Only in Further Study of Banking and Practical Business Economics. Subscriptions in Hand \$400,000.

THE Educational Foundation of the American Bankers Association—our Fiftieth Anniversary gift to economic education in America! We think of it with hope. We think of it with pride. We see its great possibilities. We look forward to making it an ever greater and greater monument to the forethought and patriotism of the American banker.

Economically America has prospered and is prospering. Our industry and our progress have brought to us conditions of living such as have never before been known. Yet our civic and economic intelligence has in no wise kept pace with our economic progress. The greater leisure which has come to us because of the development of our natural resources and because of the inventive genius of our people is not generally used for the civic advancement of the individual or for the better understanding of his duty toward society as expressed in a knowledge of its inextricably interwoven civic and economic requirements. Our future, both political and economic, is dependent upon the wisdom of our civic acts. Unwise legislation may kill the effort of the most industrious people. The small vote commanded by an election, no matter how important, must be viewed with apprehension. It indicates an unthinking, self-satisfied, let-well-enough-alone attitude which if ignorantly persisted in must ultimately destroy our democratic institutions. We find many instances where great beneficial measures and undertakings are defeated by selfish ignorance, or, to put it the other way round, by ignorant selfishness.

THE Fiftieth Anniversary Committee, composed as it was of the living past presidents of this Association, spent time and thought in an effort to find a fitting way to celebrate that anniversary. Various plans were proposed and carefully discussed before the plan for the Foundation was finally brought forward and adopted.

This plan expresses what is common in the lives of men whose work has been gen-

erously rewarded. Men then realize that that which is done for self alone brings no lasting satisfaction, no lasting reward. The Foundation idea was arrived at because, above all things, it was desired that whatever was done in celebration of our Fiftieth Anniversary it should express itself in some act that would result in good to our country, in good to its people. To further economic investigation and study was thought specifically the duty of the banker. A number of the committee gave not only of their time to think the plan through thoroughly, but gave of their money in its support.

the fund. These trustees have been at work. They have been gathering information from other foundations, from the experience of college presidents and college professors, from every available source as to the best method of administering this foundation. The trustees have had under consideration ways and means of making this fund most quickly usable and available to the largest number of students, and while no definite conclusions have been arrived at, that not being necessary until January 1, 1928, there has been given to the subject of scholarships and fellowships the most careful thought.

It is natural that these scholarships be placed in our principal universities, and that at least one be placed in the university of every state of our country. The question of gift scholarships has been carefully considered, as well as the question of loan scholarships. If the experience of other foundations and other givers of scholarships and those who have had the handling of them

will be relied upon, our scholarships will very likely take the form of loan scholarships. Should that be the case, it would be possible to immediately help a far greater number of students because not only should the plan of loan scholarships be adopted, would the increment to the fund be used, but very likely a considerable part of the principal fund would likewise be used.

Then, too, the creation of a number of fellowships has been given considerable thought. Human progress is making the world a constantly smaller place to live in, and our present civilization to maintain itself draws from every quarter of the world. International banking will be the banking of the future. It has, therefore, been the thought of a number of the trustees that the establishment of fellowships, which would send American students to the universities of England, France, Germany and elsewhere for the purpose of gaining the experience of other peoples, would be of infinite advantage to the future American banker.

[illegible]

As the Educational Foundation Fund stood at the Los Angeles Convention

As is known, the amount designated as necessary to set the plan in motion was finally subscribed at the Anniversary convention. Many of these subscriptions have been met, and as the charts indicate, there has been paid into the hands of the Trustees approximately \$300,000, and there has been an accumulation of interest of approximately \$10,000, which, added to the collectible pledges, makes a total of over \$400,000. The individual pledges have all been paid or are in collectible contract form. Twenty-three states have either paid or overpaid their pledges. The amount to be transferred from the treasury of the Association has been deposited with the Trustees. The splendid contribution of the American Institute of Banking, collected in small amounts from men and women employed in our banks, has been paid in. This leaves 27 states to be heard from. The time for the final payment of all pledges is January 1, 1928.

The president of the Association has named a board of trustees to administer

I WANT to dissipate an error which seems to have found lodgment in the minds of some of those who have already subscribed liberally to the Foundation, and without question in the minds of some who would subscribe liberally but for this misapprehension. It was never the thought of the Anniversary Committee nor of the trustees appointed to administer the Foundation that any of the funds subscribed, or the increment thereof, be used in any other manner than to advance the knowledge of banking and practical business economics. These scholarships are not to be awarded to those seeking general knowledge. They are to be awarded to those only who, having qualified by two or three years' study of banking and practical business economics in a recognized university as being fit candidates for the honor of a scholarship or a fellowship from the American Bankers Association, and the award is to be used only in their further study and investigation of banking and practical business economics.

To me the amount that has thus far been subscribed is only a beginning. It is only the indication of an intention. It is only an assurance to the American people of the American banker's unselfishness and of the American banker's devotion to the economic

welfare of his country. I know that this fund will be increased by the increment from the amount paid in and will be increased materially by large future contributions from those whose prosperity has come to them in the banking profession.

Some of us are sometimes charged with being idealists, but were it not for ideals closely cherished and resolutely made effective, many of life's most beautiful possessions would never have come into being. I hope to live to see the time when this Foundation, because of increment and future contributions, will have multiplied itself tenfold. What I am concerned about at the moment is to bring before the American banker again the need of continued moral and financial support of this Foundation, because thereby he is intelligently supporting the profession from which he derives his daily bread, concerned to bring before the representatives of those states whose pledged quota has not yet been forthcoming, the need of earnestly and enthusiastically supporting our great endeavor and delivering to the Foundation as soon as possible the amount pledged by them at the Atlantic City convention.

No one foresaw the great future of our first educational endeavor when a few strug-

gling bank clerks met to organize the American Institute of Banking. Yet today when the most profound educators in America, concerned with adult education, met to consider their problems, the experience of this American Bankers Association undertaking was heavily drawn upon. No one realized the future of the work of our Commission on Public Education when it was first conceived, and we have thus far only scratched the surface in our endeavors, but already thousands of bankers feel an obligation to those in their community to impart to them in the schools and at various public gatherings that knowledge in regard to economics, which the banker has gained in the sometimes hard and bitter school of experience.

The Foundation is not the dream of men whose lives have been spent in dreaming, spent without achievement, nor can its future be well foretold. The ethics of a profession whose efforts express themselves in a broadminded public interest must be commended. We are casting our bread upon the waters. We are hoping that it may be food for the worthy, and we are willing to trust to a wise Providence for the fruitfulness of our endeavor.

Collection of Non-Cash Items Optional With Reserve Banks

THE campaign conducted by special committee on Non-Cash Items of the American Bankers Association to persuade the Federal Reserve banks to discontinue the collection of non-cash items has resulted in a ruling by the Federal Reserve Board making it optional with each of the twelve Federal Reserve banks as to whether or not it will handle non-cash items at street addresses. This report was submitted to the Executive Council at Los Angeles by John W. Barton, of Minneapolis, the chairman of the special committee.

A questionnaire sent to the entire membership of the Federal Reserve System by the committee revealed that only 779 banks out of 4502 which responded were in favor of continuing the service now rendered by the system. After the results were communicated to the Federal Reserve Board, one of the members on last May 17 proposed a resolution that the Board leave it to each Reserve bank whether it would continue or discontinue this practice.

MR. BARTON said that he was advised by Governor Crissinger, on last September 24, that the Board had voted to suggest this procedure.

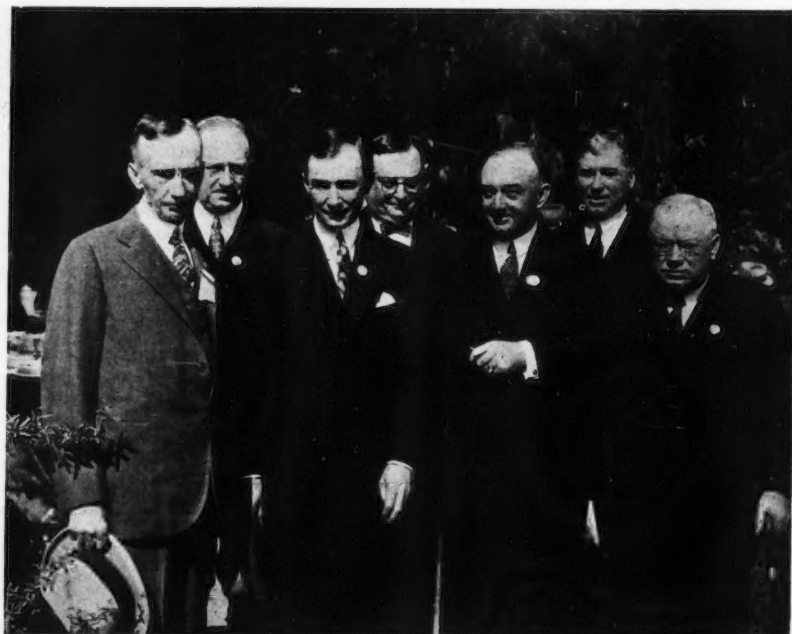
He quoted the following from a letter that had been received from a member of the Board:

"It is my understanding that the recent action of the Federal Reserve Board regarding non-cash items leaves a method of procedure, as well as the question of whether non-cash items will be handled at the Federal Reserve banks, entirely in the hands of the officers and directors of the twelve Federal Reserve banks.

"In consequence of this situation and because I have not had the opportunity of dis-

cussing the proposition with any of the officers of the twelve banks regarding the matter, I must frankly say I do not know just what the procedure will be in the future regarding non-cash items. I would say that the procedure now would be for your committee or those banks who are interested in the matter to take the problem direct to

the Federal Reserve bank of the district. For instance, in the case of Minneapolis, I should say that the problem should be handled with the Federal Reserve bank of Minneapolis, since, so far as the Board is concerned, it has granted authority to the Reserve banks to use their judgment in these premises."



At Los Angeles. In this group are: (front row, left to right) Thomas R. Preston, Melvin A. Traylor, Oscar Wells and George M. Reynolds. Marco Hellman, the Los Angeles banker, is the central figure in the back row, with F. N. Shepherd, Executive Manager of the American Bankers Association on his left and William G. Fitzwilson, Secretary, on his right.

Knowing How and Why

By RAY LYMAN WILBUR
President, Stanford University

The Real American Economic Unit is the Boy or the Girl. Training of the Young is the Background of the Success of the Human Race. Information, Discipline and Idealism Are Needed. International Viewpoint in Our Thinking Necessary.

A SHORT time ago I had a very unusual opportunity. We opened at Stanford University a new laboratory for the study of high voltage. This laboratory was brought together by the efforts of men in the industries, manufacturers and distributors of electricity because we had a great scholar of unusual quality, Professor Ryan, in our institution who could work along this line.

Several hundred of us gathered there in the great dark room to see for the first time 2,100,000 volts of electricity jump a free space of twenty feet. It was a remarkable thing. There was a thrill as one watched the electricity start from the two poles and over and over again try to cross the gap, but it was only accomplished when the full voltage was given.

Old As the World

THERE it was, something worked up by man never seen before in the history of the world—that amount of power used in that way, and yet that could have been used any time in the last 200,000 or 300,000 years, if those on earth had had the capacity and the understanding to use it.

Think of it! A great power, a servant ready for you when you press a button, to run an elevator, or to light a light, always ready, no union rules, ready to serve; dependable, working under laws that we do not know entirely, but we know that when we discover them, they are real and dependable laws!

One of the remarkable things about discovery is that when we find out new things we find that they tell us again of the orderly quality of this great universe in which we live. And then, too, at that exhibition or demonstration we grasped for a moment the fact that new fields were opening up. Here was not something new in geography, but here was a great new territory, great new opportunities for the distribution of power and the use of water, all possible in the past but only made available now.

The Aztecs or the cliff-dwellers could have used the radios just as we use them, if they had the training and education and had known the facts. The ether waves were there just the same. The wireless and transmission was there. The only thing that was lacking was the knowledge of man.

Think for a moment of the telephone, perfectly possible to the Romans—but they did not have the information. The human race that has gone forward has been able to accumulate a store of scientific and other information. We put that in great libraries.

We have the record in these libraries of what the races have done, and we go to that record in order to make studies there so that we can guide ourselves by the experiences of the past.

There is no doubt that the voice of history is one of the most potent voices in the development of our race, but while we are looking backward through our libraries at the history of the race, we have learned to look forward into the unexpected and into the new through our laboratories and our methods of research.

The Boon in Experimenting

NO one can say how far they are going to go. Seventy-five years ago nobody dreamed of what we would be doing today with the telephone or the telegraph or the radio or the wireless or one thousand of other inventions—things that have fitted right into ordinary living today. They have all come to us by the use of a method that we call the experimental method, the method of trial, the willingness to try.

The spirit of a pioneer is the most wonderful thing about this social animal we call man. While he is a herd animal and has the herd instinct, he has been at the same time a foraging and pioneering animal capable of going to all parts of the earth, because he soon learned how to carry his food supply and bury it and how to change his raiment. All through that pioneering period he has had curiosity. He has wanted to see how things worked, and then why they worked.

The Greeks started with many observations along this experimental line. Leonardo Da Vinci, one of the greatest men who ever lived, worked on the airplane and submarine. He was one of the greatest artists, painters, sculptors that ever lived, and one of the greatest scientists, and had unique capacity as a mathematician, but he was out of tune with his surroundings, too far ahead, so that for centuries the things that he started were not appreciated. We have just now managed to catch up with the ideas of that great man.

The experimental idea is the basis of our advance today. We do not have opinions, we seek for facts. I remember how that was impressed upon me by some one of the early experiments that I read about. Somebody came into Rome a couple of thousand years ago and claimed that he was immune to the bite of serpents. So, in order to try it out, to see whether he was right, one of the officials dug a hole, rather deep, and put a number of serpents in it and then put

the man in to see how it would work out. The record of just what happened to the man we do not have, but that is the true example of the experimental method.

A little while later two men along the Mediterranean began to argue about how long a dolphin could live. One thought he could live twenty years and another thought longer, but one man said, "Let us catch a dolphin, cut his fins in a certain way and then see if he is ever caught again." They did that and made the record, and between 200 and 300 years later that dolphin was caught. There was the old record, and there was real information about how long a dolphin could live.

The experimental method found its greatest master in so far as the human relationships to those forms of life that invade the body and cause disease in the great Frenchman Pasteur, who would not take the opinions of anyone but who sought for the facts and who opened up a great new field and demonstrated to us some of the enemies of mankind. He showed us that there were living organisms in the world that could penetrate our bodies and damage us, and the old ideas, the old taboos about disease began to disappear from the more civilized parts of the earth.

Why the World Advances

IT is true that we have many who do not recognize facts but recognize only opinion, but the great major portion of the human race goes forward whenever there is an advance of this kind not only in its thought but in its collective and individual action.

Humankind has been able to take advantage of the experimental method on the one hand and the accumulated lore gathered by experience on the other, because there is possible in the human race a high degree of training of the younger individual. When a wildcat is born, he is born as a wildcat, and he is pretty apt to be a wildcat very much like his father and mother, living exactly the same way, and the same thing holds true for a thousand years; but when a human being is born, the potentialities of that individual are enormous. No one can say whether he is going to be an Edison or a Lincoln or a Washington, because there is a spark that some call divine in all and in some there is also a spark of genius that carries this frail human body up to the point of divinity.

Training, though, of the young is the background of the success of the human race. That training has to be based upon a

number of different things. Not only must that training be in information so that one may know more, but that training has to take the form of discipline so that the individual can control his emotions and his passions and his conduct. It has to be so that an individual can work with others and work as a disciplined unit, or his energy might be more destructive than advantageous.

There has been a great deal of talk about human liberty. There is a question of how far the individual has rights to do this or that. I always like that definition of human rights that was given by the man who was arguing about this question of liberty. One man said to another, "I have the right to shake my fist in your face any time I want to." The other man said, "That is right; but your right to shake your fist in my face ends exactly where my nose begins."

Idealism as a Part of Training the Young

IN all education and in all training we must know why things operate the way they do, and why we ought to operate in the way that we should. We can call that latter thing idealism, looking ahead, looking outside of ourselves, and in our country there has been in our educational system a definite ability to bring idealism forward and make it a part of the training of the young.

One of the things that I want to emphasize in connection with the problems bankers are studying in the American Bankers Association in connection with education is that while you think that economics or the unit, we will say, of economics in this country is the dollar, while you may think that, you are wrong. The unit of economics in the United States of America for the man who looks ahead is the child, the boy or the girl. Dollars do not amount to anything without the boy or the girl in the background. When we think in terms of the human family we can not think in terms of any artificial thing like a dollar. We must think in terms of the boy and the girl, and what is being done for that boy and girl so that he or she may develop into a citizen who will carry forward the type of organization, of society and of idealism that we are accustomed to.

Consequently, when this Association has its educational fund and the members talk about education and progress, they are doing the most consistent thing possible in the study of economics. What is the good of building up the greatest country in the way of prosperity, the greatest accumulations of gold, when a comparatively few people who have not education and discipline and ideals can in a country by majority vote dissipate the whole thing and blow it up?

There is not anything in developing this great structure that we call the American civilization unless we are building up from the bottom boys and girls of sound bodies, sound brains and good moral qualities and good character to carry on the load.

When a banker makes a loan he does not depend so much upon how much a man has in the bank; he depends upon how much he has in his head and in the way of character.

One Outstanding Thing

THE one outstanding thing in this country is not this gold reserve or this system or that or the number of bath tubs in a town, but the number of boys and girls who are applying at the doors of the institutions of higher learning to get more and more training.

That means that we have an aspiring youth; that we have prosperity so that we can afford to spare the time of those young people from the field and the store and the bank in order to get further training. It means that all of our prosperity is not going into indulgence, but that a great deal of it is being used for preparation for the future. It means, too, that with the increasing complexity of our civilization we are in need of more experts who know the way around, and those experts, as some of these young people will be, are being trained. It is the most hopeful sign for the future and the most obvious sign of an intelligent people.

I hear people say, "It is dangerous for people to have too much education." That is not a sound point of view for a thoughtful man to take if he will look around him and see what this country has done, because it has the highest standard of living and the best grade of education in the world. We have taken advantage of a lot of things, not because they were poured into our lap but because we went after them. We had the brains, the capacity to train men. Stop for a minute and think. That oil that is being pumped out of wells has been there for a million years. It was just as possible one hundred years ago for somebody to get two gallons of gasoline out of some of that oil, and run an automobile or an airplane, as it is today, but nobody did it because the fundamental studies had not been made. The seepage may have been seen by the Indians, but they did not know chemistry. They did not know how to go about it at all. Fundamental things, education and training, eventually become the structure upon which we build our human society.

As I see men working in physics and chemistry laboratories and other things that seem entirely practical, I often think of the story of the man that came down from New York when I was connected with the Food Administration during the war. He was appointed on an arbitration board. He made a settlement that was very distasteful to the men that brought this forward, and they proceeded to attack him. But he felt rather secure and he said to these men: "Up where I come from, we have a theory that a man who sleeps on the floor can not roll out of bed."

When we get the fundamental structure through education so we have enough people who can sleep on the floor so they will not roll out of bed, we get a sound structure for our society.

What Education Is

SOME people have thought of education as so much Greek, Latin, mathematics and chemistry. That is not what we mean by education. Those things may be part of education. Education is the process we put people through to develop a mind that can be used for worthy purposes. That is one of the important things about education—to

get our young people so that they cannot only pick up the burden that we put down, but so that we can expect from them that they will know more than we do and go forward. The look forward is the great thing in education.

Ignorance is our worst enemy. It is the thing that costs the great penalty. Bankers know what ignorance means in the field of business. I know what it means in medicine. When an expert comes forward and says, "I do not know," all the quacks and fools in the world crowd around with a solution. The doctors say, "We have no cure for cancer," and it is not three minutes until somebody is advertising a cure for cancer and thousands are biting.

If there is bad stock that bankers will not buy—that does not sell at home—there can always be found people right over the border that will buy it. Ignorance, gullibility, are the things that are the greatest danger.

When we have majority rule, and when so many things are settled by the vocal organs of the politician, orator and legislator, it is a mighty important thing to have people that know fundamentals so that after they have had their ears tickled, they still can think things over and decide before they vote whether it is good, sound business to follow the windbag or the man that thinks of what is right and what is really going to happen.

Our Political Failing

ONE of the great difficulties we have in our debates and discussions about legislation is that we fail to make a distinction between things that are unwise and things that are wrong. If we get a thing so arranged that it is an emotional matter, whether it is prohibition, or whatever it may be, we go strong. When it is a question of what is wise and unwise, then we are a little confused. As a matter of fact, that is not a sound position for any country to be in. Its citizens must be educated better than that. They must not determine issues by their emotions. They must be determined through normal intelligence.

Dean Pound, of the Law School of Harvard University, in discussing the subject of legislation, says:

"It is easy to decry legislative law making. It is easy to declaim against the reign of law, but legislative law making is obviously the type of law making, of the maturity of the law. If we are inclined to scoff at it, we must remember that legislation solved the problem of workman's compensation when judicial methods failed, and the exigencies of modern business preclude waiting for the slow process of the judiciary to work out many of the settled practices of marketing. Just as the high powered vehicle of today requires us to mark out the middle of the road on the pavement, and mark zones of safety and turns, so does modern business require lines to be laid out and limits to be designed and a permissible course of conduct to be determined in advance by legislation rather than have judicial controversy. Legislation we must have and yet, admittedly, it is most unwieldy in practice. How to take advantage of the legal background, how to use what has been provided so as to secure the most with the least waste, is a problem of social engineering calling for as great an equipment of science and educational resources as any problem of educational engineering, through the research carried on in our highly endowed laboratories."

Now, I read that because I have the feeling that unless we can bring into the domain of legislation the full elements that go in other educational processes, pay attention to not only our accumulated opinions, but to the experimental method, that legislation is

(Continued on page 395)

The United States Public Debt

By GARRARD B. WINSTON
Undersecretary of the Treasury

Should Full Year's Trial of Present Taxes Justify Belief in Higher Surplus Than \$100,000,000 for Several Years, We Should Get Tax Reduction. Treasury Thinks It Is Good Policy To Retire Debt Rapidly While We Can. Retirement Program.

IN peace times the United States does not resort to credit, but pays cash. Except for some relatively small borrowings to strengthen the currency and to build the Panama Canal, any national indebtedness has represented the price of war. So a picture of the public debt is, in its broad outlines, a major war in which the country cannot pay as it goes, but must borrow for a large share of its expenses; then a period of gradual reduction of the debt so created; its continuation at a low figure; another war; and a repetition of the process. The three cycles in our history, in the third of which we now are, were the Revolutionary War, the Civil War and the Great War. Other wars may appear in the books, but they had little effect on the national debt structure.

After the Revolutionary War our foreign and internal indebtedness, which included the indebtedness of the states assumed by the Federal government upon Alexander Hamilton's insistence, aggregated in 1790 some \$71,000,000. The foreign debt was paid by 1815, and the entire debt retired by 1832. Figures as to the real burden of the debt are incomplete, since we have no satisfactory estimate of national wealth or of national income at that time, but when one remembers that we were then a new nation, poverty stricken, and with little industrial development, this reduction of debt represents a truly great effort.

War's Burdensome Legacy

IN the Civil War cycle we find an interesting comparison with our situation today. We owed practically nothing when that war commenced. At its close the peak of the indebtedness was \$2,750,000,000. In 1914 our debt of about \$1,000,000,000 was represented principally by bonds to secure national bank circulation. We reached the peak of \$25,500,000,000 in 1919. In the seven years after the Civil War the debt was reduced 22 per cent. In the seven years since 1919, that is to 1926, the debt has been reduced 23 per cent; \$600,000,000 reduction then as against \$6,000,000,000 now, but still by this great accomplishment we have put no greater burden on the individual taxpayer since the last war than was done sixty years ago. By 1892, or twenty-seven years after the Civil War, the debt had reached its low point of less than \$1,000,000,000.

We may analyze the factors which went into the reduction of the present debt to date and see what may be their influence in the future. On Aug. 31, 1919, the gross debt was as high as \$26,500,000,000, but this

was at an intermediate point during a fiscal year just prior to a tax payment period, and is not representative of the real debt. At the close of the fiscal year 1919 the debt was about \$25,500,000,000; it is today about \$19,500,000,000. There are \$5,800,000,000, roughly \$6,000,000,000, for which we should account.

Of this total sum, \$1,000,000,000 represents a reduction in the cash balances of the Treasury. Just after the close of the war the Treasury was spending at the rate of a billion dollars every two weeks, and, necessarily, it had to keep a large amount of cash in the general fund. As expenditures fell off rapidly, the cash in the fund was decreased, and the fund is now on a peacetime basis, varying between \$100,000,000 and \$300,000,000. Instead of owing \$25,000,000,000 and having \$1,200,000,000 in cash, we owed \$24,500,000,000 and had \$200,000,000 in cash. This source of debt reduction is used up and cannot affect the future. From securities used to pay estate taxes, out of purchases from franchise taxes and other miscellaneous items we obtained a little over \$200,000,000. These items, yielding over \$80,000,000 in each of the years 1921 and 1922, brought in less than \$1,000,000 in 1926, and will not be again material.

The difference between government receipts and government expenditures chargeable against such receipts is the surplus, and the aggregate of \$2,056,000,000 for the seven years went to reduce the debt. An excess of receipts over expenditures increases the cash in the general fund, and at the next quarterly refunding period the Treasury can meet part of the maturing obligations in cash and need refund only the remainder. For example, this September we had \$415,000,000 4½ per cent notes maturing, and we sold a new issue of \$378,000,000 3½ per cent certificates. Out of existing or expected surplus the national debt in September became \$37,000,000 less. So, as long as the Treasury owes money and has to meet maturities, cash surplus disappears in debt reduction.

How Debt Was Cut Down

TWO billion dollars is a large excess of receipts over expenditures in the seven years, but before it can be stated that this is entirely too much to collect from industry today and devote to the reduction of a debt which might be paid tomorrow, consideration should be taken of the sources from which the money came in order to determine whether it was entirely out of the pocket of today's taxpayers.

During the war and in the period of immediate post-war adjustment, the United States made what might be called capital investments. No proper balance sheet can be set up for a government. Treasury accounts must be kept on a cash basis. While in the long run this practice gives an accurate picture of fiscal results, still, in periods of wide fluctuations, one year may share the benefit of a previous year's expenditure, and a cash basis is temporarily uncertain. Prior to 1922 the government had, among other things, used money for war supplies, now become surplus, loans to the railroads and investment in the War Finance Corporation, and in the bonds of the Federal Land Banks. During the last five fiscal years the aggregate surplus was \$1,750,000,000, and included in this surplus was \$950,000,000 realized by the Treasury from previous investments. Most of these assets have been turned into cash, but there still remains \$400,000,000 to be received in this and succeeding fiscal years. Then the assets will be exhausted.

In addition, the Bureau of Internal Revenue has been cleaning up back taxes on the war years of high rates. We have detailed figures for the last three years only, and these show a net receipt of back taxes collected over refunds made of \$400,000,000. On the expense side of the accounts, the Army and the Navy, and to some extent other departments, have been using up old war supplies and thus reducing current expenditures.

We have, you see, as a nation been living on the barrel of flour, sides of bacon and canned goods which we bought in previous years and stored away. When these are exhausted we will be restricted to current taxes and have less surplus.

In 1920 Congress enacted into law its financial program of handling the debt. Roughly, \$10,000,000,000 of debt represented borrowings for our expenditures in the war, and \$10,000,000,000 represented borrowings to loans abroad. Congress chose a sinking fund calculated to retire the half represented by domestic borrowings in twenty-four years, and, with the then expectation that foreign loans would be promptly paid, directed that repayments of their indebtedness by foreign nations should go to retire bonds, and thus meet the other half of the debt within the twenty-four years. The sinking fund is not restricted to ten billion of the debt, and so if foreign repayments are not made, or are not made in full, the entire war debt will ultimately be extinguished from the sinking fund, although at a period much later than the twenty-four years originally contemplated.

plated. This sinking fund to date has accounted for \$1,750,000,000 of the six billion of debt reduction, while foreign repayments of principal represent something less than \$300,000,000.

In the various debt settlements Congress has provided that the debtor may pay both principal and interest in securities of the United States at par. As a practical matter, of course, these securities are not used unless they are quoted in the market at par or less on the day they are to be surrendered. When the Treasury receives these counters, which are its own obligations, there are two things it might do: cancel the securities and thus reduce the debt or resell them to the public. Since the Treasury has no authority to sell United States securities at less than par, the second alternative is not practicable, and securities so received to the amount of \$500,000,000 have been used to reduce debt.

Summarizing the debt reduction of \$5,800,000,000 in the seven years, 18 per cent came from decrease in the general fund balance and $3\frac{1}{2}$ per cent from miscellaneous sources. None of these sources will influence future debt reduction. Thirty-five per cent came from surplus, and half of this surplus represented return of capital investments which will not continue to produce revenue in the future. Thirty per cent came from the sinking fund and $13\frac{1}{2}$ per cent from our foreign debtors.

Paying In 66-Cent Dollars

THERE are two thoughts I wish to suggest at this point. If we retire a debt of \$25,000,000,000 uniformly over a twenty-five-year term and pay an average rate of interest of $4\frac{1}{4}$ per cent, the total interest cost will be \$16,000,000,000. If the term is made thirty years, over three and a half billion is added to the total interest. If sixty-two years is taken, as some persons have urged, total interest would be \$46,272,000,000, or nearly twice the original principal. So a twenty-five-year program will cost the American taxpayer a total of \$41,000,000,000, and a sixty-two-year program \$71,000,000,000.

The real value of the dollar does not remain constant. If we take our Civil War experience and use as a base the dollar of 1860, we borrowed a 54-cent dollar and we paid in an 85-cent dollar. We repaid \$3 for every two we borrowed. Referring to our present debt and as a base the dollar of 1913, we borrowed a 51-cent dollar and we paid back to date on weighted average a 56-cent dollar. Today the dollar is worth about 66 cents. Paying in the early years of the seven-year period instead of waiting until 1926 saved the Treasury \$600,000,000. If the appreciation of the dollar continues—and such has been fiscal history after other great wars—then the longer we postpone payment the more in real value we will have to pay.

So, taking into consideration our historic policy, and the actual sources out of which the debt has been reduced, debt retirement to date, while large and most encouraging, has nevertheless been fair to both the bond holder and to business.

The statement is made that we have had debt reduction at the expense of adequate tax reduction. This is not true. Let us consider for a moment what has been accom-

plished in tax reduction during the past seven years. It has been the experience of the Treasury that reduction of the individual income tax stimulates the creation of taxable income and also increases the general prosperity of the country, so that, within certain limits, it appears to be true that a decrease in rate of tax makes no decrease in the amount of tax received by the government. This variable of changing income subject to tax makes difficult the ascertainment of the exact amount of taxes saved to the people by a particular reduction in rates.

If, however, we take the revenue actually collected under the old law for the last year it was in effect, and compare it with the revenue which would have been collected under the new and lower rates of tax had they been in effect in that year, a fair idea of the reduction can be had. On this basis the 1921 Revenue Act reduced taxation \$663,000,000 a year, the 1924 Act \$519,000,000, and the 1926 Act \$422,000,000, or a total of \$1,604,000,000 a year. If we go back, however, to the peak of our internal revenue collection, we find that the Treasury collected \$2,500,000,000 less in 1926 than it did in 1920. If the 1920 return from internal revenue taxes had been maintained for the succeeding six years to date, the American taxpayer would have given his government nearly \$14,000,000,000 of additional taxes. Compare this with six billion of decrease in debt. It has been the policy of the Treasury to recommend a balance between debt reduction and tax reduction. On these figures it will not be said that the balance is in favor of debt reduction.

Future Debt Funding Program

A DEFINITE program for the future is difficult. While one cannot look far ahead in this complex world, there are certain factors which should continue to reduce the still enormous debt. Some nations apparently consider a large debt as a part of the permanent financial structure of the country. During the 100 years from the fall of Napoleon to the opening of the World War, England only reduced its debt from \$4,500,000,000 to \$3,500,000,000. During the same period the French debt increased steadily from a nominal figure to \$7,000,000,000. With this policy America differs. Congress in 1920, by providing for a sinking fund and for the application of foreign repayments to the retirement of the debt, definitely reaffirmed our historic policy of having no permanent public debt. This legislation has become a part of the contract between the United States and the holders of its securities, and a change cannot be made without repudiation. We will not have repudiation.

The use by our foreign debtors, under the debt settlements authorized by Congress, of United States obligations in payment of interest is not within the control of the Treasury. Market conditions determine whether or not it is advantageous to the foreign debtors to use certain securities, and if so used there appears to be nothing for the Treasury to do except cancel the securities received. To credit the amount of these securities against the sinking fund would in effect permit the foreign debtors and not the Treasury to determine the particular bonds to be retired. For the past three

years the Treasury has been using the sinking fund almost exclusively toward the retirement of the Third Liberty Loan, which still amounts to nearly \$2,500,000,000, has no prior call date and matures within two years. Until this loan is out of the way, the right of the Treasury to apply the full sinking fund to the most pressing maturity should have no interference.

We come finally to the factor of surplus, that is, the difference between receipts and expenditures. It is here that flexibility lies between tax reduction and debt reduction. First, consider what the government must spend. After every war there is a sharp decline in government expenditures as the country gets back to a peace basis. As opposed to this there are increases through growth of the country and the after-costs of war, principally in pensions. In a few years the curve of decreasing abnormal expenditures is met by the curve of increasing normal expenditures. President Garfield, when he was chairman of the Appropriations Committee of the House, calculated from a study of financial history of the world that these curves should meet in a number of years after the war which is twice the duration of the war. His calculation was correct in the Civil War period, and it seems to be substantially right again today. Total expenditures chargeable against ordinary receipts of \$6,500,000,000 in 1920, the first real peace year, dropped to \$3,500,000,000 in 1924, or four years after a two-year war. They went up \$25,000,000 in 1925, another \$50,000,000 in 1926, and the President in his budget speech last June stated that it might be possible to have a minimum of \$3,600,000,000 in 1927.

Without the determined stand of the President for economy, the expenditure figures would have been greatly increased, but, in spite of holding expenses to bed rock, the growth of the country seems finally to have caught up and we cannot rely on further decreases to supply a surplus.

A Properly Balanced Budget

THE purpose of government is to give its citizens life, liberty and the opportunity to pursue happiness. This is a large and expensive order. Stated otherwise, the government should provide the protection and facilities its people require. The sole source of a country's revenue out of which this duty can be performed is taxation. Taxation, therefore, should be sufficient to meet the nation's policies, but no more. It is not possible to estimate with absolute accuracy this cost or the revenue for future years.

Reductions in expenditures are not likely except through decline in interest charges by retiring or refunding at lower interest rates the public debt. A bit of new legislation, a new activity of government, may increase the expenditures. A shading of prosperity, the exhaustion of a capital asset now held, may decrease receipts. Two types of influences which are cumulative in their effect, both reducing surplus. With an unbalanced budget a sinking fund is a mockery. We should not contemplate in peace times spending more than we receive. We should, therefore, consider an annual surplus of \$100,000,000 as no more than a prop-

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Values in American Prosperity

By WIGGINTON E. CREED
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The Fundamental Underlying Values in Prosperity Are Those Values That Build Up a People Capable of Sustaining Prosperity. They Underwrite Civilization and Consolidate Human Progress. Our Success Proves Principles of Liberty and Equality Sound.

ON every side America is heralded as prosperous. No basis for argument with anyone as to that fact can readily be found, emphatically not among those who owe us money.

So evident is this material good fortune and so general its diffusion among the people of America, that discussion of its causes and effects has not been lacking either at home or abroad. World-wide interest attaches to the subject. But analysis has dealt for the most part in popular fashion with superficial causes and interpretations have unfolded in equally popular manner the material aspects of the situation.

Viewed from these angles, the broad and pertinent facts are easily summed up. Invention has offered new methods to industry. These methods industry in America has used to provide more things for more people at prices they can pay. Development and extension of the services of transportation, communication, light, heat and power have created increased volume in business and added to the convenience and security of life. In short, while the application of science to industry has lessened human toil and drudgery, it has at the same time augmented the variety and volume of things produced for the benefit and use of the people of America. The process has gone even further and developed new industries and new jobs, widening and adding to the paths of opportunity and turning back the spectre of unemployment.

High Standard of Living

ON the interpretative side, the most popular note in this analysis of prosperity is the one which stresses the high standard of living in America, its comfort, its convenience, its security. The American stenographer enjoys more comforts and better living than fell to the lot of the great Queen Elizabeth. "Carriage Company," which once stirred so violently the emotions of Samuel Pepys, creates not a ripple of excitement today. Even the American laborer drives to his job in a far better carriage than Pepys ever knew. Great aggregations of capital work to produce in variety clothes, food, shelter, sanitation, service, amusement and instruction. The goal of this productive effort in America is not to supply the Queen and her court, her nobles and her ladies, but, on the contrary, to supply all the people of the nation.

The electric iron is not produced to be sold to a fortunate few, but to go to every home in the land. Thus one might develop countless examples to prove the ambition of

American industry so to manage the business of production that its goods and services can be used by everyone. But it is enough to say that industry succeeds in its purposes and that our standard of living is the highest known to the world.

It is equally popular in current discussion to dwell upon the wide distribution and division of the wealth created by our prosperity. Savings bank deposits have more than doubled in the last fifteen years, and the number of depositors has risen in greater proportion; in the same period the assets of building and loan associations grew fourfold and life insurance in force outstripped even these remarkable advances. The investment records of the country show that the number of small investors has materially increased and that the size of their investments is steadily mounting.

Topping all this, the most sensational evidence of the diffusion of wealth is to be found in the shifting of the direct ownership of industry from the few to the many. The great corporations boast of their thousands, even hundreds of thousands of stockholders. Approximately 20,000,000 people are today owners of stocks in railroads, public utilities and other basic and producing industries of the country. Employee ownership and customer ownership are young movements, but already they have opened the door for direct ownership of business by the people, and millions are marching through that door. The American nation has become a nation of investors whose activities extend in every direction and embrace all branches of industry.

It is the business of civilization to bring about conditions like these. It cannot be sure that it will go on or endure unless it does. No one may question that good living and security for 100,000,000 people in one nation is both a valuable and dynamic force in the long, unending struggle for human progress, necessary to contentment, necessary to efficiency, necessary to health and to all that make the physical life worth while. The old Puritan conception against comfort and pleasure has passed away and in its place has come a general realization that distribution of "the good things of life" pays in the business of civilization. Nevertheless, these physical achievements, these material possessions are less valuable today than ever before. This is because they are easier to be had and more people have them. On every hand facilities and means exist to create them, to add to them and make them available to every one. The science of production has developed to such a point that great armies of people and great masses of

capital understand and follow it; and new opportunities appear every day for new recruits to the ranks of producers and for new tasks for new capital.

We have done pretty well in becoming masters of the physical situation. Still, we are in no danger of undervaluing giant factories, miraculous machinery, huge buildings, the great collection of material and physical things that bless us as a people. We are more apt to overlook the fact that they are ephemeral, transitory; that about them there is nothing everlasting or eternal; more likely are we to forget that, along the highway mankind has trod, great edifices were set up and great possessions gathered that now are crumbled and dissipated, recalled only as milestones that marked a vain parade.

The fundamental underlying values in prosperity are those values that build a people capable of sustaining prosperity, that underwrite civilization and consolidate human progress. We know that some individuals cannot stand prosperity. It has appeared both in antiquity and in our own day that some nations cannot stand prosperity. Obviously, we need to be concerned with the sort of people our prosperity develops; with the points of view, with the souls and the thoughts of the man behind the marvels of science, behind the means of production; with what sort of spirit there is in the American team in the great game of life. All these things are of gravest importance, for a nation is but the composite of its individuals.

A Fine Tradition

WHEN minds are directed in this channel, they are apt to think first of our institutions of free education. Young as we are, we are rich in our traditions—one of the greatest of them is the little red school house. Education has been a passion with the American people. Prosperity has expanded educational plants and increased the number who may, if they so will, seek the advantages of education. Millions have the ability and the opportunity to educate their children. Enrollment in institutions of learning, from the great universities down to the primary schools, has grown enormously. Huge sums have been spent both to improve and to add to educational facilities. In California, for example, one half the total tax revenue goes to the support and maintenance of education. In addition, large sums are annually laid out in capital expenditures.

Even when thinking of the great contributions of our institutions of free education, we cannot wisely afford to be too complacent.

Some of us, for one thing, would like to see a little of the sugar coating removed from our educational processes, but, critical though we may rightly be in some respects, the benefits derived are beyond price. Universal education stands out as one of the noblest achievements of America. In every section of the land, there is an ever-quickening eagerness for the education that years ago was restricted to the sons of the wealthy. Today we have more students in institutions of higher learning than all the rest of the world. Because of the growing and endless procession from the average home to the doors of school, college and university, there has come to America a greater diffusion of capacity, a greater variety of talent and a broadened outlook with which to meet the tasks before us. Illiteracy, in any national sense, has been wiped out, a goodly number of people are being taught to think, and the variety of talent we possess has brought about a wide and highly beneficial distribution of population in gainful occupations.

Using Our Leisure

COUNTLESS other incidents of our prosperity contain the greatest human values. There is the added leisure that America's progress has bestowed upon millions of people, giving not only opportunity for recreation but for the cultivation of the arts. Uplifting, noble thinking does not come readily in a society whose members devote all their energy of brain and body to the struggle for existence. Lean periods may produce a masterpiece, a marvelous picture, a deathless book or an eternal song, but progress, as measured by its general spiritual standard, by the lifting of the levels of popular appreciation, comes only in the fat periods when the average man may concern himself with something more than mere striving to butter his bread. Men need leisure to reflect upon the thoughts that come from the soul when the senses yield their thrall.

Again, prosperity has dotted the country with libraries and made us a nation of readers. The beautifying of American cities goes steadily forward. National parks and playgrounds of surpassing beauty call to our people, and they respond in increasing numbers to the joys of out-of-doors, to the grandeur and sublimity of the great scenic wonders of the country. Vast sums come forth out of our abundance to cultivate the arts and give their pleasures and ennobling influence to millions of people. Equally vast sums are provided for the support of science and research, for the cultivation of religion, for the battle with disease and sickness and for the amelioration of all the ills of misfortune. America is unique in its foundations and its gifts to promote the cause of humanity and to light the fires of spiritual growth. Verily, prosperity does add to the zest of life and does enrich it.

We do not lack critics. There are enough and to spare of those who from afar complain that we have made little progress in cultivating the arts of leisure and recreation, offering as proof the type of journalism that sells the best and the type of movie that draws the most. Yet we need not therefore develop an inferiority complex. The same types of journalism and the same types of movies appeal to masses everywhere. The

only difference here is that we have more people who can read and more people who have the purchasing power to indulge in questionable taste.

The building of taste is a slow and tedious process. The important thing for us to know is that public libraries, national parks, for example, are popular. The people want such things and the people use them. That men and women husband their leisure to spend it in the redwood forests of California appeals to me as evidence that they must be moved by about as fine an appreciation as that which stirs the peasants who trudge on holidays to gaze at the pictures upon the walls of Chantilly. It appeals to me also that on the whole we have done better for society in giving to millions of people an understanding and appreciation of sanitation and hygiene than to have given them only the emotion to swoon over somebody's sonata. It is not important or especially desirable that we should have the same tastes as other peoples. The important thing is that we have taste, that we have discrimination between the coarse and the fine things of life. The evidence is unmistakable that prosperity is raising millions of people to new levels, and developing a spiritual outlook and an idealism resting upon the broadest foundations of righteousness and humanity.

Our American Institutions

ENOUGH of the very obvious values. Behind American prosperity there is something more than legions of investors and countless mines and workshops. All that we are and all that we have rests upon our American institutions. The founding of the American government was both the Great Adventure and the Great Experiment in human progress, a Great Adventure because it launched a ship of new design upon stormy seas, a Great Experiment because it sought for the first time to find the solution for the conflicts of human nature in organized society in the ideals of liberty and equality existing side by side and working jointly for the progress of humanity, the two comprising the vision of the open road for everybody.

The Great Adventure created the oldest popular government in the world, serving to govern not merely the handful with which it started, but 130,000,000 people living in a complicated dynamic society of swift changes and rapid advances. The Great Experiment has won. American prosperity has demonstrated the soundness of the principles of liberty and equality, proving that the two ideals can live and flower together and that they mark the road that leads to victory for humanity and for civilization. The people today are close to the ideals of Americanism; they see them with clearer vision and greater understanding than at any time within the last thirty or forty years. This, after all, is the fundamental value in our prosperity, that it has brought home to the people the underlying causes of their prosperity and has given them new faith and belief in American institutions.

To appreciate fully the situation, one needs to consider only two of the outstanding issues of the past. When native born Americans and increasing numbers of immigrants steadily pushed back the frontier until the line of the furrow had been drawn

from ocean to ocean, we suddenly found that we had too many farms and were burdened with a surplus of farm products which could not find consumers. There were hard times, discontent, unrest. The farmers thought they must dominate the country to save it from destruction. They launched the Granger and Populist movements which kept the nation in a turmoil for two decades. These movements were directed chiefly against the bankers and the railroads who were to be dominated by the farmer in his own interest, through the instrumentality of political action and government force. The very antithesis of Americanism is domination. Liberty and equality cannot live with it or near it. The simple growth of the country solved these difficulties, the coming of widespread prosperity dissipated the movements, and reflection convinced the great majority of these forgotten hosts that the causes of distress were not "money devils" and railroads, but economic forces which they themselves had set in motion.

When the gates of the country were opened to hordes of immigrants, who poured in or were poured in faster than the country could absorb them, when they came in such numbers that there were more of them than there were jobs; when low wages, distress and poverty were the lot of so many of them (and would have been their lot even had business then had so fine ideals as it has today and there had been no exploitation of them), we witnessed the great movement against the concentration of wealth. The rich were growing richer, the poor were growing poorer. The Constitution had outlived its usefulness. It was outgrown and antiquated. Social justice demanded a change. The man was above the dollar and the dollar had to go unless the government owned it because that was the only way to establish and maintain equality. We were asked to forsake every vestige of liberty and plunge headlong into a socialistic state for the sake of equality. Liberty was only the liberty to starve and must go to its grave. There again the agitation dealt only with symptoms and not with causes.

Innumerable other abuse-correcting movements that arose between the Civil War and the World War might be analyzed and such analyses would show that even sincere reformers despaired of equality under liberty. The remedy was to destroy liberty to create equality. How times have changed! The old slogans no longer appeal. They have lost their force. "Wage slaves," "living wage," "concentration of wealth," "invisible government," "money power," fail to bring the old reactions. Prosperity has cost the demagogue much of his crowd; it has set the unthinking to thinking, teaching the farmer to deal with economic causes; causing labor to establish banks, to abandon the theory of limited production, to seek to earn a share in prosperity. The whole fabric of destructive theories is torn asunder. Today the people think in terms of building.

The constitutional liberty we cherish is not freedom to do as we please. No one can do that. By constitutional liberty we mean the right of property, including the right of contract and of labor and the personal freedom to summon all that we have of vigor, strength and intelligence to serve ourselves and society in the fields that call us; to

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Banks Seek More Equitable State Taxation

IN every part of the United States, the taxation of banks by the states is unsatisfactory, Thornton Cooke, of Kansas City, Chairman of the Committee on State Taxation, reported to the Executive Council. The banks in Wisconsin, he stated, sought to follow the lead of the New York and Massachusetts banks in being placed on an income tax basis. While such a measure was passed by both houses of the legislature, it was vetoed by the governor. However, a new move is to be made to obtain this legislation.

He reported that banks in Oklahoma, Missouri and other states have instituted suits to obtain relief by proving that bank capital is assessed two or three times as much as money invested in real estate. While these efforts to get the tax burden lightened by direct action promise to be successful, the committee suggested that the relief would not be of a permanent sort and that it would be better to attack the matter legislatively rather than by judicial procedure.

THE concluding part of the report was as follows:

"Your Committee has been more interested in the tax situation in Wisconsin than in anything else it has learned of since the meeting of the Council last spring. The shareholders of Wisconsin banks are signing petitions requesting the legislature to place the taxation of banks on an income basis, following in this Massachusetts and New York.

"Wisconsin has had an income tax law since 1911, but it could not then apply to national banks, because of the restrictions of Section 5219, Revised Statutes of the United States, and state banks also were, therefore, left subject to the old general property tax. In 1923, however, the Federal statute was amended, and the Wisconsin Bankers Association began a campaign of education to procure a change in the basis of bank taxation. Banks were asked to refuse to pay their general property taxes, because (quoting the Secretary of the Wisconsin Bankers Association), 'the tax was not a just one and because money invested in other ways was not taxed in the same manner. Several suits were started, many compromises were made and in some instances no tax was paid on bank stock.' The compromises resulted in a saving to the banks of several hundred thousand dollars.

"The legislature of 1925 passed an act providing for the taxation of banks upon their income. In the Senate, the bill went through unanimously and in the House by a very large majority. Governor Blaine vetoed it, and it would serve no good purpose at this time to go into the question of motive. The Wisconsin bankers feel that the political and economic situation is such now that a bank income tax bill passed by the legislature would not again be vetoed. Once established there, the income tax will be as welcome to bankers as it is in Massachusetts and New York.

"MEMBERS of the Oklahoma Bankers Association have been especially active in the field of litigation. More than

three hundred suits have been filed. Oklahoma is one of the states where the general property tax is still the method by which revenue is raised from banks; and, as in practically all states that have this taxing system, banks maintain that their property is assessed far above real estate of equal value. Many of the Oklahoma suits have resulted in compromises before they came to trial. A test case, however, is now pending in the Supreme Court of Oklahoma, and counsel for the banks have presented a most impressive body of authority to the effect that, where one form of property is assessed on a different basis from that used for another form of property in the same class, the courts will reform, the assessment by reducing the more highly assessed property to the basis of the lower.

"THE Missouri Bankers Association, too, has been active in assembling evidence, and its members are preparing to file a number of cases along the lines that have so far been successful in Oklahoma. At the spring meeting of the Council, your Committee expressed the opinion, following Judge Paton's comment in the AMERICAN BANKERS ASSOCIATION JOURNAL and in the *Legal Service Bulletin*, that bankers throughout the country would do well to give consideration to having banks taxed on income instead of under the general property tax. With the purpose of bringing this possibility home to those most interested in the subject of taxation, your Committee in the five months since has carried on a voluminous correspondence, partly from the office of the General Counsel and partly from that of the chairman.

"Throughout the country, there is much interest in possible changes of tax systems. A few states, indeed, want no modification. Iowa and Nebraska are, for the present, satisfied with recent legislation, which will undoubtedly have the effect of making the general property tax less burdensome. Maryland, Virginia, New Jersey, North Carolina and Pennsylvania prefer that the situation in their states should not be disturbed. In Michigan the opinion is partly one way and partly the other.

"Everywhere there has been appreciation of the interest of the American Bankers Association and in its offer of assistance, but your Committee has, of course, made it plain that neither the Association nor any committee would in any state initiate a program not desired by the bankers there. In California the tax situation is unsatisfactory, and the California Taxpayers Association is conducting extensive researches into the whole system. North Dakota has an attorney at a salary of \$10,000 to \$15,000 per annum just to look after the tax business of its members. The Kansas Bankers Association has appointed a special committee to investigate the possibility and desirability of a change of basis. Illinois has a constitutional amendment pending.

"UNREST is widespread and every time one takes a picture of the tax situation in states where revenues are still raised by the general property tax, he finds in-

equality, injustice and their inevitable results of evasion, subterfuge and perjury. We Americans have astonishing capacity for 'muddling through,' but we have muddled with our tax system too long already. It is for the bankers of America, with their practical knowledge of public finance, to bring about the adoption of schemes of taxation that will distribute burdens with substantial equality. A state income tax is out of favor just now, largely because of the faulty administration of the Federal Income Tax during the war and for some years after.

"IN the opinion of your Committee, however, it is practicable to provide adequate and equitable administration of income taxation. The old standards of what tax burdens should be have given way to a recognition that ability to pay, 'faculty,' as the tax experts call it, is the best measure of what taxes should be. Your Committee, by its work and experience since the May meeting, has been strengthened in the opinion that income is, for a great majority of states, the basis to work for. It is not under the illusion that success in a campaign of propaganda and education for the establishment of this basis will come soon, nothing less is involved than a new basis for all corporate taxation, but with progressive Wisconsin following the lead of two such states as New York and Massachusetts, your Committee does expect that other commonwealths will soon follow their example. It should be the continued purpose of the American Bankers Association's Committee on State Taxation to gather and distribute, as needed in the various states, information upon tax systems with emphasis upon the income tax."

New Size Currency

THOUGH it did not advocate a reduction in the size of the paper currency, as is now under consideration by the United States Treasury Department, the National Bank Division gave its approval, with some reservations, to the announced purpose of the Treasury to issue a smaller bank note with fewer variations in design. W. C. Wilkinson, the retiring President of the Division, reported to the Executive Council at Los Angeles.

"The Division insisted that all currency shall be of uniform size," he said. "That the distinctive marks which constitute one of the advantages of the National bank notes shall not be eliminated and that the cost of producing new plates which may be made necessary wholly by the desire of the Department to change the size of its notes shall not be charged to the issuing banks. The Treasury has not yet announced its policy nor even completed its investigations, but it is felt that the obviously correct position taken by the Division will be found to be not out of harmony with the final conclusions of the Department."

EDITORIAL

The Los Angeles Debate

THE long debate which was held on the McFadden bill during the Los Angeles convention revealed many things to the world at large and a few things to the bankers themselves.

To the general public (especially that portion of the public which from time to time has been told by misled writers of the possibility of a "split" in the Association) it revealed that even on a subject charged with all the emotional possibilities of the subject of branch banking, the members of the American Bankers Association could and did discuss it among themselves with good will and with the main appeal to reason and not to emotion.

Had the discussion of the McFadden bill (with particular reference to the Hull amendments thereto) been academic, and had the speakers been detached from banking, the session probably would not have been more devoid of feeling.

To the general public the debate showed that time and the course of events having revealed a course of action which had been decided upon two years ago to be illogical and impractical, the bankers were able to recede and to readjust their thinking and their objectives.

The McFadden bill, as approved at the Chicago convention in 1924, was, insofar as it related to the Hull amendments, a compromise, and being a compromise was necessarily not satisfactory to either side of the controversy. But its approval by the Association by no means foretold its enactment into law. The legislative body at Washington will have ceased to function when it accepts as complete and final the endorsement of any body or institution on a piece of proposed legislation. And so it came about that the Senate in its consideration of the measure found a defect in the plan and refused to enact that defect into law. If the Senate is right in its contention that it would be unjust and unfair and an invasion of state rights to so enact a law that national banks in twenty-two states might have privileges and opportunities which must be denied to national banks in twenty-six states, there would have been no permanent gain in enacting the law, for in due time Court decisions would have set it aside.

To some of the bankers in attendance the debate revealed, perhaps for the first time, that the McFadden bill was in an impasse—by reason of the Hull amendments only—and that if relieving legislation for national banks was to be secured it could only be secured by accepting the inevitable. To others the debate revealed that many bankers had been patient and forbearing in their loyalty to the will of the Association, though not unmindful of the impending impasse in which the bill now rests at Washington.

The long debate at Los Angeles was educational and clarifying. Educational in the ordinary sense, it was educational also as showing the solidarity and good temper of the American Bankers Association.

Pacific Coast Folks

A RURAL philosopher once remarked that he liked folks but he was not particularly fond of people. We think he would have found the Pacific Coast and the western states to have been peopled mostly by "folks" giving expression to old-fashioned ideas of hospitality through the medium of new-fashioned conveniences, institutions and pleasure giving developments.

The American Bankers Association convention was held in Los Angeles but the thousands of delegates and visitors from the East, the South, the Middle West and the North West included practically all of the Coast cities and several of the principal western cities in their itineraries and found everywhere that quality of cordiality which the rural philosopher attributed to "folks."

In all respects the convention of the American Bankers Association, the second largest in the history of the Association in its business aspect was, this year, what it always is, the most important of the annual business conventions held in the United States, for in its proceedings there were valuable contributions to every department in the whole wide range of banking activity. Everyone, novice or veteran in banking, who sat through its various sessions, cannot have failed to have gained new strength for the discharge of duties of his office.

In its determination to leave nothing undone that the city's guests might be happy, Los Angeles in the length and character of its program of entertainment, made a new record for itself, all of which was enhanced by the fact that Los Angeles possesses that quality of character which the philosopher called "folks."

Hampering Trade

IF the forty-eight states of the Union each had the power and the privilege to set up tariff laws of its own against the other forty-seven states it is quite likely that each would have a tariff schedule. One manufacturer seeing a fine opportunity for profit and freedom from worry over his strongest competitor located in another state would induce the legislature of his state to fence off the state with a prohibitive tariff. In due time the competitor would retaliate in kind, and presently each of the states would have its tariff barriers with expensive machinery for enforcing the laws and collecting the tariffs. Moving a trainload of oranges from Florida or prunes from California might in such circumstances be a complicated business, and we would retard and blight prosperity in each of the states and advance it in none. Nevertheless, if we had grown up within such state barriers it is quite possible that many of us might be loth to destroy them. We might not be able to see clearly what greater benefits we were to gain by free commercial intercourse between states than the visible benefits which came from keeping out those who competed with our best industries. We might perhaps

have to take much on faith and perhaps our faith would be lacking.

That is somewhat the situation in Europe today. Trade across frontiers is hampered and obstructed by various prohibitions. Peace brought with it no new freedom in this respect but instead an increase in the number of commercial obstacles compared with conditions prior to the war.

It is no wonder, then, that far-seeing men of prominence in fifteen European nations have joined in a public plea for the removal of restrictions on European trade and that five American bankers—Gates W. McGarrah, J. J. Mitchell, J. P. Morgan, Thomas N. Perkins, Melvin A. Traylor and Albert H. Wiggin—have joined in the plea.

"The break-up of great political units in Europe dealt a heavy blow to international trade," says the petition. "Across large areas, in which the inhabitants had been allowed to exchange their products freely, a number of new frontiers were erected and jealously guarded by customs barriers. Old markets disappeared. Racial animosities were permitted to divide communities whose interests were inseparably connected. The situation is not unlike that which would be created if a confederation of states were to dissolve the ties which bind them, and to proceed to penalize and hamper, instead of encouraging, each other's trade. Few will doubt that under such conditions the prosperity of such a country would rapidly decline.

"To mark and defend these new frontiers in Europe, licenses, tariffs and prohibitions were imposed, with results which experience shows already to have been unfortunate for all concerned. One state lost its supplies of cheap food, another its supplies of cheap manufactures. Industries suffered for want of coal, factories for want of raw materials. Behind the customs barriers new local industries were started, with no real economic foundation, which could only be kept alive in the face of competition by raising the barriers higher still. Railway rates, dictated by political considerations, have made transit and freights difficult and costly. Prices have risen, artificial dearth has been created. Production as a whole has been diminished. Credit has contracted and currencies have depreciated. Too many states, in pursuit of false ideals of national interest, have imperilled their own welfare and lost sight of the common interests of the world, by basing their commercial relations on the economic folly which treats all trading as a form of war.

"There can be no recovery in Europe till politicians in all territories, old and new, realize that trade is not war but a process of exchange, that in time of peace our neighbors are our customers, and that their prosperity is a condition of our own well-being."

Perhaps the reports of those who return to America after studying our prosperity will make due emphasis that the American states make no commercial restrictions against each other, and that may be a first small step toward the removal of some of the many restrictions referred to in the plea.

A widespread campaign, and in many languages, may help the people of Europe to realize that they can make money faster by letting down the barriers between the states than they can by devising new and higher barriers.

Some of those who have read the plea and noted that Americans were among the signers, have expressed fears that the document might be construed as a gesture toward lower tariffs in America, presumably on

the theory that if prominent Americans join in a plea for the removal of tariffs as a step toward the promotion of trade and prosperity in Europe, then the United States might be included among the countries whose tariff walls might be lowered as an aid to Europe. Whether or not such a deduction is justified, the recent statement by Mr. Mellon, Secretary of the Treasury shows that the administration thinks our prosperity depends upon the retention of a high tariff.

Europe will be in a better position to ask for lower American tariffs when she presents the same freedom of trading between her countries as there exists in trading between our own forty-eight states.

Unprofitable Customers

TOO many depositors take the bank and the service it offers as a matter of course with little thought as to whether or not they are adequately compensating the bank for what it does for them.

The general public, and perhaps many bankers also, may be surprised at a statement made by J. Dabney Day, president of the Citizens National Bank of Los Angeles, during the session of the National Bank Division at the recent Convention. "Analysis made by many banks of their accounts," he said, "disclose the startling information that the greater number of checking accounts are too small to be self-sustaining."

What other business has so large a proportion or even half as large a proportion of unprofitable customers, or customers on which the business sustains a direct loss? With the general public spending with a free hand for all sorts of things, trivial and transitory in character, there should be no hesitancy in everywhere setting about the education of the public to a paying appreciation of the service banks render to the small depositor.

"Not Taken in Goods"

THERE comes to us an extract from the Dundee (Scotland) *Courier* which is reproduced here as indicative of a trend of thought overseas on the War Debts and the American tariff:

"The American Treasury, through its Undersecretary Mr. Winston, has again been holding out offers of financial credit to Europe, 'as soon as the latter sets its house in order,' which means, stabilizes its currencies and concludes arrangements for the funding of state debts.

"The trouble is that America shows no corresponding disposition to become a market for European goods, and the problem as it confronts Europe is how America, since she does not want our goods, purposes to take the yield of her European investment.

"In this way America is said to own 35 per cent of the total of German industry, and probably as much of Italian and Polish industry, and these countries are looking with some consternation upon the prospect of being entirely owned by America.

"That is what further American credits must lead to when the return upon a great foreign investment is not taken in goods."

There was no consternation in America when Great Britain was making investments here though there was comparable basis for expecting dire results because some of our principal railroads were heavily financed by foreigners, and there was not even a ripple of interest when one ambitious American railroad project was taken over by a committee of British bondholders. Even if they would, the British creditors could not take the railroad out of the country, and even if they would, American investors can neither take European industries out of Europe, nor change the status of the products of those industries when they come of the American custom houses.

The State Bank Division

Opening Round in Debate on McFadden Bill Starts Before This Meeting. Better Banking Suggestions Feature Program. The Division Endorses McFadden Bill with Hull Amendments. Favors Rechartering of Federal Reserve Banks at First Opportunity.

THE opening of the extended and spirited debate on the McFadden bill started on the morning of October 4 at the Los Angeles convention at the meeting of the State Bank Division—the first official session of any part of the American Bankers Association—and resulted in the rejection of the recommendation sponsored by the Division's Committee on Resolutions and the approval of the McFadden bill, with the Hull amendments.

Upon the conclusion of the first feature on the general program, the address by Dr. Walter F. Dexter, president of Whittier College, on "The Three C's of Success in Banking," John H. Puelicher, president of the Marshall and Illsley Bank of Milwaukee, who had been named by President Grant McPherrin as Chairman of the Committee on Resolutions, announced that the only subject that would be dealt with by the resolutions would be the McFadden bill. He made the statement so that all having an interest in the proposed legislation might be present later to participate in the discussion.

THE note of "better banking," which was predominant throughout the program arranged for the Division meeting, was struck with much vigor in the address made by Craig Hazlewood, vice-president of the Union Trust Company of Chicago, who pointed out that bad management was the cause of nearly all bank failures, and gave a number of practical methods that could be employed to improve the banking situation. S. J. High, president of the Peoples Bank & Trust Company of Tupelo, Miss., discussed "Agricultural Problems" from the banker's standpoint. M. H. Malott, president of the Citizens Bank of Abilene, Kan., emphasized the need of "Credit Files in the Country Bank," while Dan V. Stephens, president of the Fremont State Bank of Fremont, Neb., told how banks could better their position by making legitimate charges for scores of services that are now rendered free. All of these addresses appear in full elsewhere in this issue.

TO bring the McFadden bill before the Division, Mr. Puelicher said that the resolutions committee (composed of M. H.

Malott, S. J. High, Dan V. Stephens and Rudolph S. Hecht, president of the Hibernia Trust & Savings Bank of New Orleans, and himself), concluding that this was the "one subject of paramount importance in the mind of every banker today," had decided unanimously to present the following resolution:

"Whereas, The State Bank Division has been consistent in its opposition to branch

well as to national banks, and

"Whereas, It is fundamental to the preservation of the Federal Reserve System that the national bank system be maintained, and

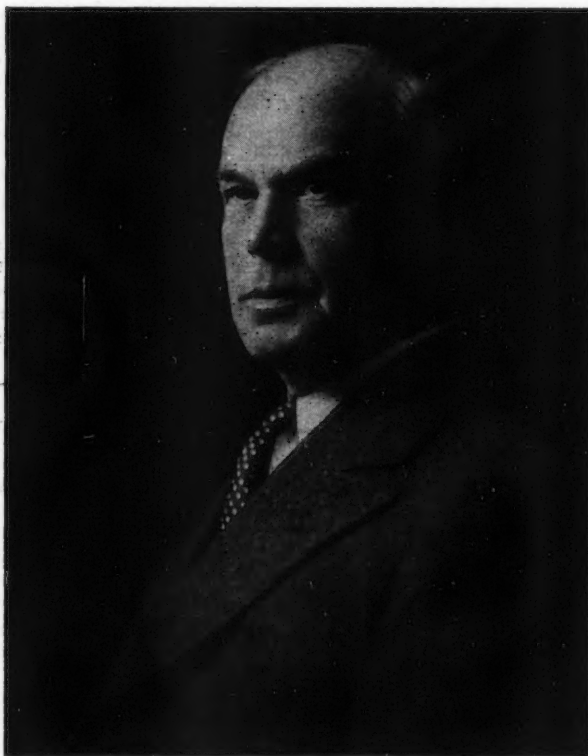
"Whereas, It is necessary to the maintenance of such system that a bill modernizing the powers of national banks be enacted without further delay, and

"Whereas, In the hope of having enacted such a bill, the pending McFadden bill, coupled with the Hull amendments, so-called, approved by the American Bankers Association in 1924, has been for the past two years consistently and with great vigor urged by our Division as well as by the American Bankers Association as a whole, but according to the best advices from Washington will fail of passage unless such Hull amendments are eliminated, they being deemed by the Senate as unfair and unjust in their discrimination against national banks and against member banks in more than one-half of the states, and

"Whereas, The passage of the McFadden bill without the Hull amendments will regulate branch banking in cities where now permitted by state law and prohibit the extension of branch banking by member banks beyond city limits, even in the states where now permitted by law, thus stopping in all the states the future growth of state-wide branch banking which, during the period of our urging the McFadden bill with the Hull amendments has been continuously increasing and will continue to increase unless the decisive action embodied in the McFadden bill be taken without further delay, thereby insuring the integrity of the national bank system and the Federal Reserve System, which is of paramount importance to all state banks, and

"Whereas, the passage of the McFadden bill without the Hull amendments is an equitable solution of this troublesome problem, therefore, be it

"Resolved, That the State Bank Division favors the passage of the McFadden bill with the Hull amendments eliminated, and petitions the Executive Council to include in its report to the General Convention of this Association a copy of this Resolution and a recommendation that the said Convention adopt a resolution in accordance therewith, and directing the Executive Officers and Federal Legislative Committee of the As-



G. E. BOWERMAN
President State Bank Division

banking and outspoken and active in the defense of our independent banking system, and

"Whereas, We, the members of the State Bank Division of the American Bankers Association, are still convinced of the correctness of our position, and wish by word and act to continue to oppose branch banking, and

"Whereas, The preservation of the Federal Reserve System is of paramount importance to the maintenance of our nation as a leading commercial people and therefore of vital importance to state banks as

sociation to present such Resolution to the members of both Houses of Congress, and urge the passage in the coming session of Congress of the McFadden bill without the Hull amendments but including the recharter provision of the Federal Reserve Act."

Expressing the conviction that the committee had come to the conclusion that "branch banking will best be stopped and arrested by the adoption of the resolution," Mr. Puelicher moved its adoption. A second was readily had.

McPherrin States Views

BEFORE the debate started, President McPherrin stated that he desired to avail himself of the right of personal privilege to explain his position.

"Before I put the motion," he said, "I think an explanation is due you and due myself, owing to the fact that I am president of the State Bank Division of the American Bankers Association. As many of you know, I was Chairman of the Committee Opposed to Branch Banking in the United States. I did everything in my power to get such a law enacted. I worked vigorously, and my time ceased as Chairman of that Committee at the annual meeting of the American Bankers Association held in Chicago. I was instrumental in getting that resolution passed. I have worked since because I was firmly convinced that that was the right thing to do.

"Now, we have been two years in trying to get such a law enacted and we have failed. I want to read just a short paragraph of the speech I made in Chicago at the annual convention of the American Bankers Association when I seconded Mr. Phillip's motion to pass the resolution:

"I just want to impress upon your minds that the longer we delay this matter, the worse it is going to be for all of us. I think you all realize just how many branch banks have been started in the past three years. In fact, the branch bank evil has doubled in the United States in the past three years. Now you can readily see at this rate how long it would be before we might look for the total defoliation of our independent banking system in America, and of course we could not have that."

"Many interesting discussions have been had on this subject in the past ninety days, and, in fact, in the past six months, and even longer. I have read everything I could get on the subject, and I have listened to all of the discussions that I have had an opportunity to hear. Finally I have come to the conclusion that in asking for the passage of the McFadden bill with the Hull amendments I was dead wrong.

"I am honest in my conviction. I arrived at that conclusion after very thoughtful and prayerful consideration. I am convinced that the bill never will pass with the Hull amendments. I am also convinced that there has been a gross misunderstanding and a lack of knowledge of the bill. I received many letters while I was Chairman of that Committee asking for information. I have discussed the question with many, and it is really appalling to see the lack of knowledge of the bill. Therefore, I am going to ask 'Uncle' Peter Goebel, a past President of the American Bankers Association, to explain the Hull amendments."

Mr. Goebel, as a representative of the Commercial State Bank of Kansas City, Kan., declared that he had always been opposed to branch banking, and did not

believe that the time had yet arrived for the adoption of this system of banking in the United States. However, he said that there could be no difference of opinion among bankers as to the necessity of perpetuating the Federal Reserve System and, as the preservation of the Federal Reserve depended on the preservation of the national banking system, the national bank should not be handicapped in its competition with state banks. "You cannot expect a national banker to continue under the national system," he stated, "if he is hampered in his transactions with the public, in his functioning with the public as against the competition of state banks."

Outlining just what the Hull amendments were, Mr. Goebel said that the passage of the McFadden bill, with these amendments, would be an incentive rather than a check to additional states passing laws permitting branch banks. "We all talk against monopoly, but yet we love monopolies if we are one of the monopolists," he observed, "and undoubtedly there will be propaganda to pass in some of these states branch banking legislation because some of the state banks think they will have a monopoly. The Hull amendments will not decrease branch banking. My own opinion is that they will be an incentive to increase it.

"On the other hand, the McFadden bill without the Hull amendments is a curb to branch banking all over the United States in states that now have it and states that may hereafter have it. That has a real control over the system. Why should we insist that these Hull amendments—which amount to so little—be part of this McFadden bill—which amounts to so much, because of our notion that it might decrease branch banking, which I think it will not do?"

Puelicher Supports Move

MR. PUELICHER, who was the first President of the State Bank Division, said that he had "consistently and always been opposed to branch banking," and recalled how, in the interests of state banks, at the time the Federal Reserve Act had been passed, that he had made seventeen trips to Washington at his own expense to get for the state banks the amendment which permitted state banks to join the Federal Reserve System without losing their charter rights. Stating that the resolution represented the sincere conviction of the members of the resolutions committee, Mr. Puelicher said that the action was taken not to stamper the convention or to influence it by any prestige that any one might have but "to bring before you the opportunity of expressing your opinion, of arguing forward and backward, so that we may arrive at those conclusions that will bring action."

To the inquiry as to whether the resolutions committee had in mind the original McFadden bill, without the Hull amendments, or the McFadden bill with the Senate amendments, Mr. Puelicher replied that it had been considered better to adhere to basic principles rather than to go into details and that therefore the reference meant "the McFadden bill without the Hull amendments."

I. I. Irwin, vice-president of the First Trust & Savings Bank of San Diego, said

that while the Division might disagree as to the wisdom of the Hull amendments, it was unanimous on the paramount issue—the rechartering of the Federal Reserve banks. He therefore proposed that the resolution of the committee be referred back with instructions to eliminate from that resolution the reference to the rechartering of the Federal Reserve banks and introduce a second resolution asking Congress to extend the charters of the Reserve banks by joint resolution. If this should be done, he expressed the opinion that Congress would pass such a measure at the December session and thus remove all uncertainty as to the continued existence of the Reserve System. Mr. Puelicher pointed out that the general convention of the American Bankers Association at Atlantic City in 1925 had adopted such a resolution but suggested that, if it seemed desirable, he saw no objection to a reaffirmation by the State Bank Division.

Representative Wingo Leads Fight

WH. DOYLE, cashier of the State Bank of Platteville, Wis., introduced Representative Otis Wingo, of Arkansas, the ranking minority member of the House of Representatives' Committee on Banking and Currency, as "a man who is probably better qualified to speak upon the McFadden bill and the Hull amendments than any other member of this assembly," and lauded him as "a man who has done more in the interest of the independent banks of this country than any other member of Congress."

Mr. Wingo said that he desired to be heard, not as a member of Congress, but as a delegate representing an independent unit bank that he organized in the days of his early youth. Stating that there had been more misinformation about the McFadden bill and the Hull amendments than anything of which he had ever heard, the member of Congress delivered a lengthy argument in favor of the retention of the Hull amendments, and urged that the resolution be voted down.

"I am firmly convinced," he said, "that when the Senate votes—as I hope it will—the first week in December upon this proposition it will accept a compromise proposition that will embody the Hull amendments." (Mr. Wingo's full views on the McFadden bill were given again later before the special session of the special meeting of the American Bankers Association and appear elsewhere in this issue.)

Mr. Hecht, of New Orleans, said that he believed a great many country bankers, who announced that they favored the Hull amendments, had never analyzed just what they were. "There has been a great deal of propaganda spread over this country during the last few weeks or few months by a so-called Committee of One Hundred," Mr. Hecht stated. "I have diligently tried to find out who this Committee of One Hundred is composed of and, if you have seen a list of that one hundred names, you have done more than I have been able to do to this day.

"This Committee of One Hundred has sent out a great deal of literature. When I learned who the Chairman was, and he happened to be one of my good friends (Walter

W. Head), I wrote him, in order to discuss this subject, and before my letter got there, I found he had resigned. I understand a new chairman has been appointed—at least, I saw on the special train coming from Chicago a booklet in which there was not printed a list of the Committee of One Hundred, but there were four names, a chairman, a secretary and two vice-chairmen.

Festus J. Wade's Letter

MR. HECHT informed the meeting that he would take the liberty of reading a letter which had been received within the last twenty-four hours by another and that when he had finished reading it he would let the bankers guess who wrote it. The letter was:

"I assumed your organization would not attempt to interfere in states where branch banking is recognized, such states for instance, as California and New York, as well as in many other states which by the laws of such states, branch banking is now and has been for years permitted by law. I naturally assumed that your organization would not attack existing vested rights, but that it proposed to avoid branch banking in such states as Illinois and Missouri, as well as in many other states where a branch is prohibited by statute.

"The so-called Hull Amendment, if enacted, would permit this bank to have a branch and prohibit our neighbor to have a branch in our state, provided the legislature of our state would so ordain. If that be true, it would be unjust and un-American.

"We are happy in Illinois and Missouri with the present law, as well as in many other states which are protected as state institutions by the mandate of the Supreme Court of our country. Why not let well enough alone? If perchance, the legislature of Illinois or Missouri should so order that branch banking be permitted, after we had used every honorable means to defeat such a measure, then we should accept the law and do one of three things: remain individual institutions, create branch banks or liquidate our institutions if we thought the law dangerous to our depositors and stockholders.

"I reiterate that I assumed and had a natural right to assume that the Committee of One Hundred would use all honorable means to fight legislation allowing branch banking in states whose laws at the present prevent branch banking, after the sweeping decision of the Supreme Court of the United States. If that be the purpose of your Committee, I am in full accord, but to presume to tell the people of California and New York, or other states that their banking laws were wrong or unsound would be fatal to our cause. If my views herein expressed meet approval, then I am with you without qualification, provided, however, that we stand on the mandate of the Supreme Court of the United States and not entangle our present situation with Congressional legislation."

"This letter," Mr. Hecht said, "was written by a man who is against branch banking as much as any man in this room, and it happens to be Festus J. Wade of St. Louis, whose name is being spread all over the country as the Chairman of the Committee of One Hundred, who are urging the passage of this bill with the Hull amendments.

"I think," he said in conclusion, "to pass any law which would be class legislation such as would prohibit national banks from enjoying the privileges which we as state banks can enjoy, if we ever have branch banking in our states, is un-American."

The Committee of 100

REFERENCE having been made to the Committee of One Hundred, Mr. Doyle gained the floor and stated that he wished to inform the Division that he was a member of the Committee of One Hundred, had no apologies for stating this fact, and, as a further evidence of his respectability, desired to say that he was a member of the Executive Council of the American Bank-

ers Association from Wisconsin and a former president of the Wisconsin Bankers Association.

"I hope that this convention will not be stamped into endorsing the report of this committee because it is made up of a past President of this Association, or a prominent city banker of this country," Mr. Doyle declared. "What the Hull amendments propose to do is to place national banks upon a basis of equality with state banks in the twenty-two states where branch banking is now permitted. It was never intended that the national bank act should be liberalized to meet the demand or the whim of every state law governing the banking business." (Mr. Doyle's views are given in extended form in the general debate on the McFadden bill).

C. A. Hinsch, president of the Union Trust Company and president of the Fifth Third National Bank of Cincinnati, expressed the opinion that the Senate would never consent to the passage of the McFadden bill with the Hull amendments, as such legislation would confer upon banks in twenty-two states the rights denied to the banks and bankers in twenty-six other states. Stating that he was absolutely opposed to state-wide branch banking, he urged the adoption of the resolution.

At this juncture Mr. Doyle offered as an amendment to the original resolution that all references to the Hull amendments be eliminated from the report of the resolutions committee, but this was ruled to be contrary to the spirit of the amendment and unacceptable.

Ramsey Walker, president of the Wallace Bank & Trust Company of Wallace, Idaho, remarked that the question of branch banking was a comparatively new one, and said that, while he was willing to admit all of the shortcomings of the independent banking system, he believed the United States had accomplished more with this system than Europe had in all of its ages with branch banking. Warning the country bankers that should disaster follow the adoption of a state-wide branch banking system the brunt of that disaster would fall upon the country banker, he urged them to "stop, look and listen" before they voted for any measure that would serve as "an entering wedge which sooner or later will mean nationwide branch banking and with all the ills that go with it."

He declared that the Federal Reserve System was in no danger, but that the real fear of those "wringing their hands over the Federal Reserve" is that the Act will be amended.

"When the Federal Reserve was first thought of, it was intended for two purposes—a bank of issue and discount," he said. "Before it is rechartered the law should be amended, confining it to that. It has been an instrument of inflation ever since it came into being. In 1920 there was bad leadership, and from the ills of 1920 and the crash of 1921 the bad leadership of the Federal Reserve Bank involved the little banks in the country in much greater debt than they could possibly hope to carry, and then, when they got them in the middle of the stream they pulled the plank from under them and left them to sink or swim. The strong swam and the weak sank."

Voting Down Resolution

IN order that the Division might have an opportunity to express its views on the desirability of early action by Congress to extend the charters of the Federal Reserve banks, President McPherrin announced that, if the motion made by Mr. Irwin should be seconded, he would call for a vote on the question. It was pointed out, however, that the proposal was not in proper parliamentary form, as it contained a motion to lay the report brought in by the Resolutions Committee on the table and also a new motion.

To clarify the situation, Melvin A. Traylor, the First Vice-President of the American Bankers Association, suggested, as a "friend of the court," that a separate resolution be considered stating "That it is the sense of the State Bank Division that, by this vote, we memorialize Congress to pass at the short session this fall and winter a re-chartering of the Federal Reserve Act with an indeterminate re-charter of the provision of the Federal Reserve Banks." A second to the proposal was had, but Mr. Irwin announced that he would insist on his previous motion.

President McPherrin ruled, after being advised by Judge Thomas B. Paton, the General Counsel of the American Bankers Association, who was on the platform, that both the motion made by Mr. Irwin and the proposed resolution suggested by Mr. Traylor were out of order, as the motion originally made to approve the report of the Resolutions Committee was still before the meeting and had not been disposed of or displaced by any other motion.

A rising vote was taken on the resolution and it was lost. Whereupon, W. J. Rathje, president of the Michigan City Trust & Savings Bank of Chicago, moved that the State Bank Division go on record as favoring the McFadden bill, including the Hull amendments and the re-chartering of the Federal Reserve banks. The motion, upon being seconded, was put to a vote and adopted without discussion.

The New Officers

THE new officers of the Division for 1926-27 as elected by the Division are:

President, G. E. Bowerman, president of the Fremont County Bank of Sugar City, Idaho; Vice-president, M. H. Malott, president, Citizens Bank, Abilene, Kan.

To fill two vacancies on the Executive Committee, M. Plin Beebe, president of the Bank of Ipswich, of Ipswich, S. D., and L. A. Andrews, president of the Citizens Savings Bank of Ottumwa, Iowa, and Superintendent of Banking for the state of Iowa, were elected.

S. J. High, president Peoples Bank & Trust Co., Tupelo, Miss., was chosen chairman of the Executive Committee.

Warnings

Many a bank has lost money through fraudulent schemes against which warnings have been given in the Protective Section of this magazine. See that everyone likely to be approached reads the warnings as something intended personally for him.

A Champion for the Country Bank

By GRANT MCPHERRIN
Retiring President State Bank Division

Campaign for the Development of a Better Understanding and Relationship Between State Banks and The Federal Reserve System Continued. Better Banking Certain as We Have More Consistently Profitable Banking. More Uniform State Laws.

TRUE to its trust, the State Bank Division has always championed and continues to champion country banking interests. The eventful years in their procession, of course, bring ever-changing problems, and the officers of the division have been alert in meeting them. This year we have been busily engaged, in addition to numerous other activities, in encouraging the development of cooperative farm marketing facilities along sound economic lines. We have continued our campaign for the development of a better understanding and relationship between state banks and the Federal Reserve System, and are gratified at the strong and growing appreciation of the Federal Reserve System evidenced by our member banks.

We have actively cooperated with the Better Business Bureaus and other agencies in a nation-wide campaign to educate the general public in the fundamentals of sound investments, and commendable progress has been made.

We have waged a helpful campaign for the maintenance of complete credit files on unsecured loans of \$500 or more in each bank.

We have earnestly cooperated with the Clearing House Section in bringing about analysis of accounts, the making of proper service charges, standardization of checks, organization of country bankers' associations and the installation of credit bureaus to head off the danger of duplicate borrowings.

More Profitable Banking

THE State Bank Division has been mindful that we will have better banking as we have more consistently profitable banking. As one means of attaining this end, the Clearing House Section has devised a simple plan whereby any bank can make an analysis of its accounts and thus ascertain whether it is being carried on at a profit or a loss. To plug the losses and to increase bank revenues, equitable service charges have been suggested, making each account self-sustaining.

We take particular pride in the progress made in increasing the efficiency of state bank supervision through freeing this responsible office from partisan politics, increasing the compensation, and also securing a longer term of office for bank commissioners, with provision for an adequate force of qualified examiners. Another problem which has engaged our attention has been the making of a careful study and survey

of laws governing state banks. While Congress makes uniform laws for all national banks, forty-eight state legislatures vie with each other in the enactment of state banking laws—hence, the importance of an organization like the State Bank Division making a nation-wide study of these laws and suggesting more uniform action. The diversity of state banking laws in the past has been astounding, but we are happy to report a general tendency the past few years looking toward making them more uniform and equitable.

More Uniform Laws

OUR survey shows a general tendency, especially during the past two years, toward a higher degree of uniformity of legislation dealing with the fundamental principles of bank organization and operation and supervision—among which may be mentioned:

- a. Increasing the minimum paid up capital requirements of banks to \$25,000.
- b. Creating of banking boards to act in an advisory capacity to bank commissioners.
- c. Freeing the office from the domination of partisan politics, increasing compensation of bank commissioners, and lengthening his term of office with power to appoint necessary deputies and examiners.
- d. Giving bank commissioners or banking boards full power to grant or reject applications for charters.
- e. Giving banking departments full charge of liquidating failed banks.
- f. Placing building and loan associations, finance companies, credit unions, and private banks under the supervision of state banking department.
- g. Broadening the field of investments for funds of savings banks and trust companies.
- h. Providing for more equitable taxation of bank stock.

In the field of Federal legislation, state banks have a growing interest, especially since the enactment of the Federal Reserve Act. Here again the State Bank Division is playing an important part in interpreting and voicing the needs and relationship of state banks. Happily this year we have not found it necessary to differ from the general American Bankers Association program for Federal legislation.

Improved Tax Basis

FOR instance, it has long been recognized that state banks are taxed unfairly in nearly every state, but yet the way toward a more equitable system of taxation, by taxing banks as other businesses, has been blocked, because states could not tax national banks on their income, and this prevented

the taxation of state banks in the same manner. This obstacle was removed at the last session of Congress when the law, due to the activities of the American Bankers Association, strongly supported by the State Bank Division, was changed to permit the equitable taxation of national bank shares. Having this enabling legislation, New York and Massachusetts immediately changed their system of taxing state banks, and the amount that state banks will pay was very materially reduced, and the rate is now on a basis comparable with other businesses. This action has paved the way for similar moves in other states, and it is now possible for state bankers to get what they should have—equality in taxation with other businesses. Numerous other problems were handled and countless services were rendered our great family of 12,000 member state banks.

It is true the past four years have been trying indeed for the bankers. Heavy personal demands have been made on our time to discuss business affairs with our clients. While many business adjustments have yet to be made, I feel that the worst is over, and from now on our duties will be somewhat easier, and, therefore, our profession will be more delightful. It has been the purpose of the State Bank Division since its organization to keep before you continuously nothing but the highest standards of banking, and I am confident the aim for the future will be for the constant improvement of banking methods and the thought of close cooperation with all sections and divisions of the American Bankers Association.

Belga Is Name of New Currency Unit

THE world has a new monetary unit in the belga. When Belgium decided to stabilize the franc, it adopted the belga as the new monetary unit. It is the equivalent of five paper francs.

It takes 7.20 belgas to make a gold dollar. When the new unit appeared late in October, it sped past its intended parity against the dollar within a few hours after it had appeared in the foreign exchange market.

In stabilizing its currency, Belgium went on a gold basis. The franc will have only one-seventh of its pre-war value under the program of revaluation, but the European country has raised a \$100,000,000 fund to keep the value of the new unit stable.

Better Banking Is Imperative

By CRAIG B. HAZLEWOOD
Vice-President, Union Trust Company, Chicago, Ill.

Mismanagement Held Responsible for Nearly 100 Per Cent of the Failures in the Last Six Years. Excess and Capital Loans Among the Chief Reasons for Banker's Troubles. Extension of Supervision and Strong Secondary Reserves Are Greatly Needed.

FIFTY billions of dollars of deposits are lodged with the 29,303 banks of America. In 1919 there came a period of deflation, the effects of which are still evident in some parts of our country. In spite of this the bank deposits in the last seven years have increased fully twelve billions of dollars, the increase being 24 per cent of our present total.

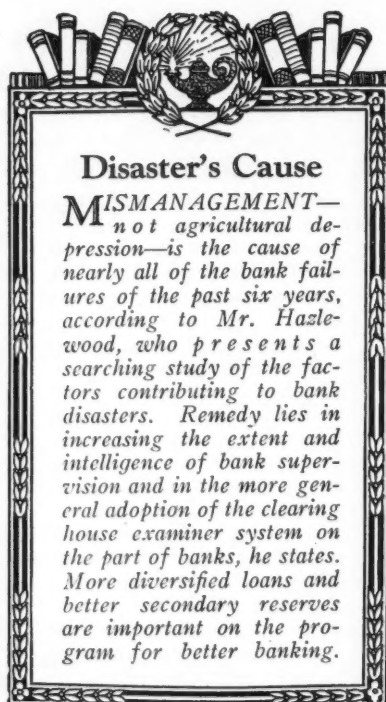
This is a magnificent showing. America's resources have never stopped growing, and America's banks have justified and held public confidence in them. Undoubtedly, as a result of the deflation period which began seven years ago, some weak spots have been discovered, and a considerable number of banks have failed. In 1919 the casualty list represented about \$10,000,000 of deposits, but in 1924 the total increased to \$300,000,000 of deposits. In 1925 the total casualties dropped to \$172,000,000, and if they continue for the remainder of 1926 at their present rate they will reach a total of \$215,732,000 this year.

Last year's record of losses of \$172,000,000, which is about one-third of 1 per cent of total deposits, is considerably less than the average losses in mercantile lines, but it is too large for the banking business. I should like to emphasize, first, that bank losses can be made smaller; and, second, that it is our duty as leaders in the banking profession to find ways of making them smaller.

Mismanagement Revealed

NEARLY all of us have been affected in one way or another in the last six years by the bank failures that have taken place in that period. These failures, all of which have been broadcast in the newspapers, have not done the banking business any good. Every one of them has raised a question in the minds of a certain number of people regarding other banks. Every one of them has revealed some weaknesses and some mistakes in bank management.

I should like to have you give careful consideration to the following statement: "The cause of bank failures is so nearly 100 per cent the result of mismanagement that that cause may be considered the whole answer to the matter." It may strike you that this is an exaggeration. There have been a great many failures in Iowa, for example, in the past few years. Ask the average man the reason for failures, and he would very likely answer, "the agricultural depression that began in 1919." I believe I can prove conclusively that this is not the correct answer.



Disaster's Cause

MISMANAGEMENT—
not agricultural depression—is the cause of nearly all of the bank failures of the past six years, according to Mr. Hazlewood, who presents a searching study of the factors contributing to bank disasters. Remedy lies in increasing the extent and intelligence of bank supervision and in the more general adoption of the clearing house examiner system on the part of banks, he states. More diversified loans and better secondary reserves are important on the program for better banking.

The banks of Iowa have been going through a trying ordeal. In the last six years 267 have failed, but there are in that state more than 1600 banks doing business today which are entitled to confidence and which have weathered the storm. Practically every one of these banks was confronted with the same conditions as those that failed. If economic conditions alone were responsible for Iowa bank failures, then nearly all of these institutions would have failed. The answer is that under the strain of exceedingly difficult economic conditions in Iowa the weak spots appear. Well-managed banks survived, and the weak ones fell by the wayside.

Chief Reasons for Failures

AND then there is more proof, and that of a direct nature, in the statement of the head of a state banking department in the Middle West, who says that mismanagement of one kind or another has been found in 99 per cent of the bank failures which he has reviewed during his tenure of office. He has made these statements frankly and openly, and thus far no more than 1 per

cent have come forward to deny them. This is what he wrote me in May of this year:

"The bank failures we have had in this state bring out very prominently four or five faults in country bank management, which are interesting to say the least. It is surprising how uniform these faults are in all of our closed banks. We have made an analysis of these matters and find the four or five outstanding reasons for bank failures to be as follows:

"1. Excess loans are found in every closed bank, and they indicate a total disregard for the legal limit to be loaned to any one customer.

"2. Excessive loans to officers and directors and interests with which they are connected vary in amount in different closed banks, but many times they were the direct cause of the failures.

"3. Capital loans, that is, loans by a bank of its funds in the capital credit structure of its customers' businesses. We find many banks have loaned from one-half to nine-tenths of the capital employed in the business of their customers, with a total disregard of good banking practice which permits making loans only for the temporary necessities of customers. They know these loans cannot be paid at maturity, and the customer knows he cannot pay. It is simply tying up the funds of the bank in strictly frozen assets.

"4. Real estate investment and real estate speculation by bank officers, directors and relatives.

"5. Plain incompetence is responsible for from 50 per cent to 99 per cent of all bank troubles."

The Failures in Georgia

THIS is a strong indictment, but I have replies in my files to questionnaires that were sent out to twenty-odd other bank superintendents, and all of them confirm the same conclusion. There are eighty-three banks which failed recently in Georgia. There is nothing the matter with Georgia from an economic standpoint. On the contrary the state is prosperous and going ahead. These banks all belonged to one chain, controlled in Atlanta, and their failure has revealed a condition of gross mismanagement which proceeded from the central office and which diverted their loans from legitimate local use to unsafe credits sponsored by the holding company. The weaknesses of banks may show up at times of collapse of land speculation, or stock speculation, or in times of actual panic, but it is possible to conduct any bank through

any period of bad times, local or country-wide, without danger of failure. It has been done, it can be done, barring war and acts of God.

If this be true, it follows that, if we could eliminate entirely the element of mismanagement, and could do away with errors of judgment and deliberate mistakes, we should then have a banking system without failures. So long as ordinary human beings are managing banks, however, this is a highly improbable, not to say impossible, result. Mistakes are going to be made, and the rules of good banking practice are going to be broken, both deliberately and unintentionally. The point we bring ourselves to, then, is the desirability of reducing the danger of mismanagement so far as possible.

This is necessary, not only because we have had an increased percentage of bank failures in the last several years, and evidently need some kind of improvement in position, but also because in years to come, probably within our own range of experience, there will be other strenuous periods, other times when economic conditions, perhaps a credit panic, will put our methods to the test, will accentuate our weaknesses, if we have them. The creation of the Federal Reserve System, with its elastic note issues, eliminated the fear of another currency panic, but there will undoubtedly come again in our economic cycle a period of depression and credit stringency. The bankers of America should be prepared in advance for this, and I am sure that for the most part they are so prepared.

What can we do to improve our situation? I am assuming that we are all interested in improvement of the banking business as a whole, regardless of whether our own institutions are as strong as any in the land. We are intelligently selfish if we are thus interested, for whatever affects the safety of the banking business as a whole affects our own institutions in proportion.

How to Make Banking Safer

FIRST let us consider some of the plans proposed to make banking safer by changes in legislation. There is the guarantee of deposits method, either by the state or by funds raised by assessment under the management of the state. The best answer to this is, of course, to be found in the experience of those that have tried it. It has been an actual failure in Oklahoma, South Dakota and Kansas, and it has been only a partial success in Nebraska, where its management has been directed by experienced bankers. In a recent questionnaire sent to Nebraska bankers, however, 55 per cent stated that they regarded it as a mistake.

The reasons for the failure of this system are not difficult to find; first, because its control has usually been placed in political hands; and, second, because its principle is inherently wrong. A state guarantee of deposits of all banks under state charters provides for an insurance without reference to the risk involved. No privately owned insurance company would undertake to issue a bond or guarantee for every dollar of deposits in all the banks of any state. They would be very glad to do so,

without doubt, for by far the greater amount of deposits. Unquestionably, however, they would reserve the right of selection of the risks.

Among the advocates of branch banking in this country, there are those who argue that, if we were to abandon the unit system of banking and change to a system of country-wide branch banking, we would improve the safety of banks. The general subject of branch banking is one of very active interest at the present time in view of the discussions regarding the McFadden Bill. I should like to consider at this time only that phase of the question which relates to the comparative safety of the unit banking system and the country-wide branch banking system.

All of us know that some critics of our banking system say that our bank failure record of the last few years is in itself proof of the failure of the unit banking system. In answer to this, it is my opinion that these assertions are wrong. In the first place, there is no inherent strength in size alone. It is presumed that the average banks with branches would be much larger than the average unit banks as we now have them. The totals of a large institution include the totals of deposits, which are liabilities. It is customary for us to brag somewhat about our volume of deposits, which means the amount of our liabilities to the public. The ratio of the margin of safety represented by stockholders' money, the reserves in cash and other liquid assets that are maintained, and the good management that is directing the affairs of the very large institutions may make it just as strong and secure as any bank in the land, but not more so. The opportunity to observe fundamental banking principles is always present, and they can be practised in every bank in the land, small or large. There is no monopoly of sound banking practice. Mike Malott's bank in Abilene, Kan., can be, and is, just as strong in proportion to its liabilities as any banking institution in New York, Chicago or Los Angeles.

The viewpoint of the banker on the ground in daily contact with his customer is nearly always more reliable. This is recognized every day by the city banker, who will not take on the borrowing account of a corporation located in another city or town, unless he does so in cooperation with one or more local bankers with whom the concern has a close working arrangement.

An Argument for Small Units

AGAIN the proposition gets back to this—that a bank is no better than its management, and the opportunities for mismanagement in a large city bank with state-wide branches, where funds may be siphoned out of local communities for the purpose of loaning to favored interests in the city, are at least present and must be considered. The failure of a single branch banking system, as, for example, the failure in Australia in 1893, would cause as much loss as the failure of a large number of small unit banks. On the principle of distribution of the risk there is probably something to be said in favor of the smaller units.

There is only one argument in favor of

the safety of the branch banking system which, to my mind, has any weight, and that is the possibility that, through the circumstance of paying larger salaries, they are able in some cases to employ experts in various special fields or by-products of banking service, such as the handling of trusts, investments and foreign exchange. In the field of straight banking, however, there is no expert any better than the country banker, who knows his customers and their needs in an intimate, personal way, who is concerned in giving to his own community the best financial aid and advice at his command, and who can be depended upon to carry through his obligations and his commitments.

Owing to the nature of California's agricultural products, which lend themselves best to mass production, and consequently to mass financing, state-wide branch banking has been developed there as nowhere else in the country. I sometimes think that in our own consideration of this branch banking matter we do not give sufficient attention to the public's possible viewpoint in the matter. Apparently the branch banking system is popular with the people of California, and there is no question regarding the strength and high standing of the banks of California which are engaged in state-wide branch banking. I believe, however, that the temper of the American people as a whole, with their disposition toward free and open competition, will be unalterably opposed to the elimination of the unit banking plan.

If we conclude that guarantee of deposits is not fundamentally sound and that the adoption of branch banking would be no panacea for bank failures, are we, therefore, forced to the conclusion that no measures we can adopt will improve our banking situation? I do not believe that this conclusion follows, but it seems to me that there are two general courses we can pursue, each of which will greatly assist in making our banks stronger and our failures fewer. One of these consists of increasing the extent and the intelligence of our bank supervision, and the other deals with the methods we ourselves employ in conducting our business. The possibility of human error is present in every undertaking. It is impossible to eliminate it wholly. If the element of error can be materially reduced, and if we can make banking measurably safer for the banking public, are we not accomplishing something really worth while from our standpoint? Are we not to be held accountable for the bankers who cannot be depended upon to make bank deposits secure? If we will not assume this responsibility, not alone for our own institutions, but for neighboring and competing banks, how can we successfully argue against the attempt to do so by government guaranty?

Supervision is Necessary

IT is a perfectly human thing to refrain from making a bad loan or a bad investment if the result would bring us criticism or censure. Only a comparatively few men can be depended upon to operate single-handed without error. Supervision of some kind is necessary and desirable. The constituted authorities for bank supervision

under the controller's office, and under various state banking boards, are charged with this responsibility by law. They are operating efficiently, in the main, and in spite of the occasional interference in politics or insufficient appropriations, they are doing fine work. In many cases, however, their powers to use discretion and judgment should be increased. This is true in the important matter of their power to refuse charters for unnecessary new banks. Crowding in three banks where two could well serve the community is a mistake, if by the establishment of the third bank there is insufficient business to enable any of the three to conduct its affairs on a conservative and profitable basis.

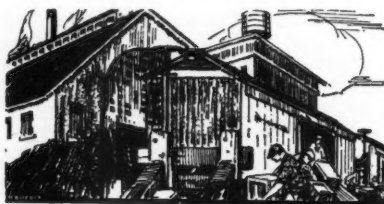
There are many other particulars in which the laws of our various states can be improved to give our banking departments a closer check and balance on the operation of banks under their jurisdiction. The State Bank Division has made a very thorough study of this matter, and through the active association of its Deputy Manager, Frank Simmonds, with the Association of State Bank Supervisors, has presented a series of recommendations for strengthening the State Banking Boards.

Supervision that prevents bank disaster is more valuable to the stockholders and depositors alike than payment of the deposits through liquidation, or by operation of a guaranty fund, or by any other form of insurance after failure has taken place. If there is a method by which the good banks of your county can help to reduce the risk in banking, is it not worth while for all of them to join together for this purpose? Almost all bankers feel that their banks are being conducted properly. However, many bankers perhaps know of cases of banks which are taking unwise risks. They undoubtedly feel that some of these institutions may at some time get into trouble if they persist in taking these risks. They know also that the judgment of other bankers in their community would coincide with theirs about the danger of such risks. In many cases these risks probably are taken by bankers who are somewhat inexperienced, who desire to favor some particular interest, or who may themselves have interests in outside businesses which they wish to promote.

There is a plan which is a demonstrated success in thirty-three cities of this country and which has gone a very long way to reduce these risks in these communities. I refer to the plan of a Clearing House examination. I know that the first reaction of many bankers is that this plan is suitable for the city, but not for the country communities. However, let us examine that conclusion before we accept it.

County and City Conditions

IN the first place, the principles of sound banking are the same in the country as they are in the city. A safe loan for one bank is a safe loan for another bank. In the next place the plan has been in successful operation in about a dozen communities in various parts of the country in which the banks are all relatively small institutions. It is a comparatively new idea and, I am frank to admit, is a hard one to sell. Feelings of jealousy and rivalry are to be



expected where competition is strong. Your competitor may be a cordial companion at a bankers convention, but he is a "black devil" at home.

If an organization has been effected and its conduct is in the hands of its own members, the periodical examinations which are made, for the purpose of disclosing the exact position of each member bank, would be more than a simple check of cash and the books. They would include a thorough analysis of all the assets, a review of every note in the portfolio and of every security in the vault to determine the actual position of the bank.

A summary of the bank's position by the Clearing House Examiner would cover the essential points disclosed by the examination and would give to the management an estimate of the bank's net position.

The report should be a complete story and a fair appraisal of the bank's ability to pay its depositors. The examiner should be frank and open in his criticisms, and he should be able, if necessary, to prove his contentions to the directors of the bank. Moreover, if it seems advisable, he should call them into session for the consideration of his criticisms. If he is worthy of his job, it would be unnecessary for him to report to the Clearing House Committee every criticism he might make. It should be possible for him to agree with the management, or perhaps the management backed by the board of directors regarding reforms which should be effected and conditions that should be rectified.

However, there may come a time when he is unable to cooperate further with the management or the board, when unsafe conditions can no longer be allowed to prevail and when the Clearing House Committee should be called in. It is in such times of crisis that the Clearing House Committee can function for the safety of the depositors of the "weak sister" bank. At such a time it is entirely conceivable that it would be to the selfish interests of all the banks that the one bank does not fail. The point is that under the examination plan the weak bank will not be allowed to go along to a point where its surplus and capital have been dissipated. Action would be taken before such a condition existed. It might be desirable then for some other bank in the same town to take over the deposits of the weak institution, together with such of the assets as they felt are safe. If no single bank wanted to buy the deposits, it might be best for all of the banks in the town to join together to guarantee the deposits, or even for the entire Association to protect itself in this way. The members of the Association would not be working in the dark with reference to the condition of the neighbor bank. They would know what they were doing because of the examiner's report. They could act quickly and decisively, thus avoiding the un-

rest and lack of confidence in all banks that come from "runs" and closing of the doors.

The Risks Recognized

AS a matter of fact, a thoroughly organized Clearing House examination plan should protect the interests of the public to the fullest extent. Unlike state guaranty of deposits, it recognizes the risks that are involved. The Association knows precisely what those risks amount to and can proceed intelligently to the task of seeing that no depositor of a bank belonging to the Association loses a dollar. This plan has produced real results where it has been fairly tried. What might happen in your community if you tried out this plan has happened in other communities where it has been in operation.

This rehabilitation process has been gone through over and over again in cities where Clearing House examiners are used. I know at least a dozen cases in Chicago where our Clearing House examiners have brought banks around into good shape and have made them into strong, healthy institutions deserving the public's confidence. These banks have been struggling along with no addition to their surplus and were in a condition of affairs generally unsatisfactory to stockholders and depositors alike.

These results can be obtained in one community just as they have been in other communities, and you can have a substantial part in improving the banking situation all around you. This is a worth while thing to do from your own standpoint, and it also is an intelligently selfish thing to do.

The laws regarding banking differ somewhat in every state. The National Bank Act and the Federal Reserve Board rulings all contain regulations of somewhat varying character for the conduct of banks. With all this there are differences in the management of banks, due to individual opinions and policies. This is the human element, and the human element cannot be absolutely standardized. However, there are certain standard practices which, if applied in banking, produce uniformly good results. These standard practices have been found to be sound and safe over many years of experience.

Is it not worth while to review occasionally some of these standard practices, and how they may be applied? First of all, there is the matter of maintaining adequate protection in the amount of the bank's capital and surplus. There is, of course, the perfectly natural urge to keep down the amount of capital, so that profits may be relatively larger to the individual stockholder. It is a recognized rule of thumb, which is law in some states, that capital and surplus be 10 per cent or more of the total deposit liability. Banks can operate safely on less, but fairness to the depositor dictates the wisdom of this condition.

Good banking practice also demands that not too great a proportion, probably not over 50 per cent, of the total capital and surplus shall be invested in fixed assets, such as real estate, building, fixtures and other real estate owned. Sometimes it is necessary that this rule be broken, but as soon as possible the relative liquidity of the stockholders' investment should be restored.

(Continued on page 413)

Charges for Small Bank Services

By DAN V. STEPHENS

President, Fremont State Bank, Fremont, Nebraska

Applying the Service Charge on Unprofitable Accounts Is Only One of Many Ways by Which the Small Bank Can Add to Its Own Income. What Making the Small Account Pay Its Own Way Did. Analysis of Large Accounts Will Bring Surprises.

WHILE the service charge against small and unprofitable accounts constitutes one of the economic advances in the management of a bank, it is not, in itself, a factor of the greatest importance excepting where the principle is applied to kindred subjects and then it becomes one of vital importance to the prosperity of a bank.

There are scores of services rendered by the bank for which a nominal fee should be charged but, in the great majority of banks, these services are rendered free.

When this subject began to attract the attention of bankers here and there over the country the Nebraska Bankers Association undertook, through its official staff, to promote this practice among the bankers of the state. In order to be of service to individual banks the secretary of the Nebraska Bankers Association, W. B. Hughes, prepared a list of services that banks usually render to their customers, together with a list of fees that are usually charged for these services and submitted them to the banks of the state as a suggestive program for uniform action.

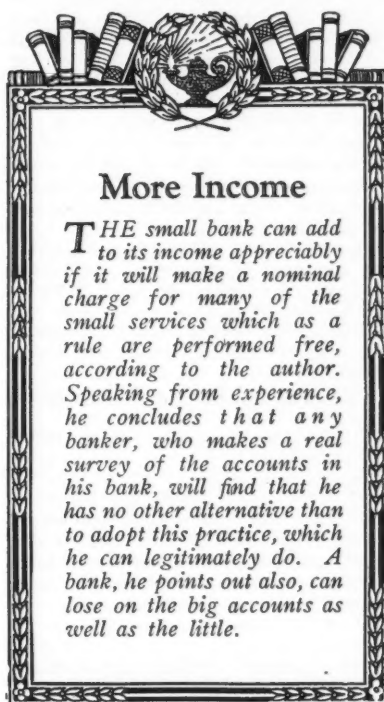
Schedule of Fees

BELIEVING that the bankers of the country generally will be interested in knowing what the services are, for which a bank can legitimately make a charge, I am printing below the list, as circulated by the secretary of the Nebraska Bankers Association.

Suggested Schedule of Fees

Acknowledgments	\$.25
Affidavit (minimum charge).....	.50
Agreement (minimum charge).....	.50
Automobile license application.....	.25
Bill of sale.....	1.00
Land contracts.....	1.50
Other contracts.....	2.00
Deed, any form.....	1.00
Lease.....	1.00
Mortgage.....	1.00
Coupon notes and mortgages.....	2.00
Chattel mortgages.....	1.00
Release of mortgage.....	.50
Clerking farm auction sales.....	?
Paying taxes (for each payment).....	.25
Credit reports (minimum).....	.25
Hunting license application.....	.25
Liens.....	.50
Power of attorney.....	.75
Execution of assignments, releases, bonds, etc.....	.50
Wills (minimum).....	3.00
Collections (minimum).....	.25
Customer's name on checks.....	Actual cost
Income tax reports.....	2.00
Return of "insufficient funds" check.....	.25
Accounts averaging less than \$50 per month.....	.50
Travelers' checks.....	¾ of 1%

In writing to Mr. Hughes prior to the preparation of these remarks I asked him to state what progress he had made in secur-



ing the adoption of a service charge among the bankers of the state. I quote as follows from his letter:

"Regarding the charge on small accounts, we have induced 173 banks in Nebraska to attempt the practice, which I think is far and away beyond the result attained in any other state.

"There is this outstanding fact about our list—it includes the banks in twenty-four 'one-bank towns.' I think you will find that in other states where they have any considerable list of service-charge points covering small accounts, they are almost exclusively in fairly large towns like those in our list of 'four-bank towns,' or those with more than four banks. We were told repeatedly that it would not work on one-bank and two-bank towns, and yet we have placed twenty-four of the former on our list and twenty-seven two-bank towns.

"You will also find in other states that in places they will list a large number of counties that have attempted a whole schedule of service charges. But if our experience in Nebraska is of any service in guiding us, one is safe in assuming that it does not mean that all of the banks of all of those counties in other states are following the schedule of service charges. The banks of six counties in Nebraska have attempted a schedule of service charges, but we know for a certainty that not all of the banks of those counties are living up to the schedule of service charges.

"In this whole matter of service charges, whether the one charge on small accounts or the whole schedule of charges, we have found that general methods of promotion of the idea, such as circular letters and speeches at group meetings and state conventions, do not produce much result. We have done much better by means of continuous pounding on a limited number of points

until the banks therein agreed to put the system into operation.

"I inclose a half-dozen copies of our newspaper showing our list of service charge points and will say that we have not had a single report of dissatisfaction with the practice. Every one of these banks report satisfaction, and that if they have lost any business because of attempting the charge, it is business that it gives them pleasure to lose because it saves them money."

Mr. Hughes further states that he has had great difficulty in securing county action in regard to the adoption of these lists for the reason that the border towns in the county are in competition with nearby towns in adjoining counties where the list of service charges has not been adopted. He further states that one of the greatest handicaps in securing the adoption of the list lies in the severe competition that exists among banks.

His views are well supported by the situation that exists generally throughout the Middle West, especially in the Ninth and Tenth Federal Reserve Districts. In these two districts there is, on an average, about one bank to every 2000 population. In some states there was, at the beginning of the period of deflation, a bank for every 750 population. These banks have been thinned out since, through consolidation and failure, until the situation has considerably improved.

Our Own Experience

THE Fremont State Bank, of which I have the honor to be president, began the practice of making a service charge on Dec. 1, 1925. Prior to our decision in taking this action we made a survey of our bank and were really astonished to discover the situation that this survey disclosed.

When we were first approached on the proposition, as a result of the booklet issued by the American Bankers Association entitled "Does That Account Pay?," we were not impressed with it until the survey was made in November of 1925.

We believe that any banker, who will make a similar survey of his bank, will come to a conclusion that he has no other alternative than to adopt the practice of making a nominal charge for the large number of services that the banks, as a rule, now render free.

We print below the survey that was made in November, 1925, and also the one that was made in September, 1926, of the status of the Fremont State Bank as a convincing proof of the soundness of our action.

Results of the Service Charge

	On Nov. 1925	On Sept. 1926
Total number of checking accounts	2,589	2,156

Number of accounts averaging less than \$50.....	1,453	335
Total amount in checking deposits.....	\$716,813.69	\$746,405.60
Total deposits in accounts averaging less than \$50.....	21,232.05	11,558.00
Total loss in checking accounts since Dec. 1....		433
Reduction in number of accounts averaging less than \$50.....		1,118
Average balance in accounts less than \$50 in November, 1925....		\$15.50
Average balance in accounts less than \$50 in September, 1926....		37.50

Approximately 78 per cent of the accounts averaging less than \$50 have either increased their balance or transferred their account to savings, while 22 per cent of the accounts have over one-half of the amount of money that the total number, viz., 1453 accounts had on deposit in November, 1925.

Total receipts from service charge on small accounts for the period of nine months amount to \$1,652.50, or an average of \$183.50 per month.

Our overdraft runs from nothing to \$100 per day. For example, on Sept. 8, 1926, our overdraft totaled \$6.84. This was made up of seventeen accounts. Out of this seventeen the service charge had overdrawn fourteen of them, making a total of \$50, leaving three accounts making an overdraft of \$2.84.

On Sept. 19, 1926, we counted the checks drawn on us and the total number on that day was 1228; 221 of these items represented checks drawn against accounts averaging less than \$50. This is 18 per cent of the total number of items as compared to 40 per cent before the service charge was put into effect.

Fremont is a city of 12,000 people and has three commercial banks and two building and loan associations. The three banks acted in unison in putting the service charge into practice. They issued a joint letter to their customers signed by the three banks, setting forth the reasons and the necessity for this service charge. The letter follows:

Notice to Our Customers

"A careful analysis of the checking accounts in the Fremont banks discloses the fact that a number of average balances do not pay the cost of carrying them.

"A well-managed mercantile business is organized and carried on in such a way as to make every department pay its own way, and, if possible, should show at least a small profit. The manufacturer organizes his business along the same lines. The efficient farmer diversifies and plans his work in such a way as to make every branch of his business pay a profit, if possible. This is in line with common sense and efficiency.

"The banker has his problems, one of them being accounts which are unprofitable in that the overhead in taking care of them figures a great deal above the profit returned from such accounts. We realize that these accounts are useful to our customers and we shall be glad to continue them, looking forward to their ultimate growth, but feel that those accounts carried at a loss should reimburse the bank.

"In case a customer wishes to carry a small account the banks wish to encourage the use of their savings department, where interest will be allowed. Money on deposit in the savings account is accessible at any time, the only difference being the customer is required to call at the bank and make a withdrawal in a lump sum in place of writing a number of checks. There will be no charge on accounts carried in the savings department regardless of how small they are. This may seem strange to one who is not familiar with the daily routine in a bank. The difference is due to the amount of work the bank is put to in caring for the accounts.

"At a meeting of the Dodge County Bankers' Association Wednesday evening, Nov. 18, one bank submitted the following astounding figures. This certain bank has 2589 customers carrying checking accounts which total approximately \$720,000. Out of that number 1453 accounts average \$50 or less with only \$21,000. Forty per cent, or \$11,000 of the annual expense was directly chargeable to the \$21,000 on deposit.

"In order to render the usual service and, if possible, more efficiently, the Dodge County Bankers' Association passed a resolution suggesting that a minimum charge of fifty cents be made on accounts which do not pay their own way, and, in harmony with this resolution, the Fremont Clearing House Association, beginning with Dec. 1, 1925, will make a charge of fifty cents per month on accounts averaging less than \$50.

"Please feel free to call at your bank if you do not understand this fully and it will be explained in detail. We assure you that your account is wanted and appreciated and we feel certain when you know the facts you will agree with us.

"Yours very truly,"

It was signed by all banks.

Since the adoption of this service charge there has been no formal meeting of the three banks to compare notes on the results of their action, but, so far as we have been able to ascertain in private conferences with the other banks, there has not been any disturbance created over the charge that is worth considering. It has been the experience of all three of the banks, we think, that where a complaint has been made it has been by some one whose account was so unprofitable to the banks that it caused no concern whatever. So far as we know not a single valuable customer has offered a complaint or found any fault with the practice.

Men of the right ideals do not wish to have a bank render them services for which they are not permitted to pay. We have gone on the theory that none of our customers wants to get something for nothing and our experience has justified that theory.

Results of Service Charge

THE big and important thing to a country bank is the outstanding question, "What will this practice be worth to my bank? How much revenue can we obtain from it?" The most effective answer to that question is to give the concrete example of what it has meant to our own bank.

We have made a service charge on about twelve different services that our bank renders, all of which are included in the list submitted by Secretary Hughes to the bankers of Nebraska, although some services mentioned in that list we do not render. For example, we do not make wills nor income tax reports, but we apprehend many country banks do do these things. However, for the twelve things for which we make a charge, we collected fees from Jan. 1 until Sept. 1, eight months, in the aggregate amount of \$5,260.11. This is almost enough to pay our annual dividend. Out of this \$5,260.11 obtained from the entire service charge of our bank in eight months, \$2,960.30 were new charges that we had never heretofore made. These figures are sufficient certainly to show any country banker that whatever difficulties he may have in putting this practice into operation, is compensated for by the considerable revenue that he will receive. We are convinced we have suffered no loss whatever as a result of the service charge and we know that we have received a revenue for the entire service charge sufficient to pay our dividends each year.

In referring to the table showing the status of the bank in November, 1925, and its status in September, 1926, after the service charge had been in operation nine months, a most interesting fact is disclosed by the information that we had 1453 accounts that averaged only \$15.50 each in daily balances.

We discovered, by a further examination, that these accounts drew 40 per cent of the checks on our bank and should carry 40 per cent of the overhead. By charging 40 per cent of the overhead to them we made the startling discovery that these 1453 accounts, with their \$21,232.05 of deposits, had cost us \$11,000 in expenses. It was a tremendous price to pay for that volume of business.

The next startling bit of information disclosed by this table is that after nine months of operation the accounts averaging less than \$50 had been reduced from 1453 to 335 and that the 335 had \$11,558 on deposit, greatly reducing the cost of operating the bank with a very small corresponding loss in deposits in this class; but these deposits that disappeared from this class of deposits, reappeared, largely, in the accounts that were above the average of \$50, so it cannot be figured as a total loss. The total loss in the total number of checking accounts since the service charge went into effect has been 433.

As proof that the practice has not cost us anything we offer the fact that our deposits at the lowest season of the year are still above our deposits in November when the service charge was put into effect.

In addition to the saving in labor in the handling of these unprofitable accounts we have saved in ledger sheets, pass books, deposit slips and checks an aggregate amount of at least \$300. This, added to the service charge of \$1,662.50 for that period, would take a total income for this particular branch of the business, exclusive of the cost of labor saved, \$1,962.50.

We did not reduce our working force; not because we could not have reduced it, but because we directed it into other channels of production for the bank. We have used it more efficiently and economically.

Another Source of Revenue

THERE is another source of revenue that banks, as a rule, lose sight of, which can be obtained from drafts accompanied by bills of lading. Country banks, as a rule, have been accustomed to giving the customer immediate credit for these drafts, assuming that the balance maintained by these customers is sufficient to cover the small interest charge that should be made against them during the period of collection.

In November, 1925, we made an analysis of many of our large accounts that we had considered exceedingly profitable. It had never occurred to any one in the bank that an account with from \$10,000 to \$20,000 daily balance could be carried at a possible loss to the bank, but this analysis disclosed to us that many of those accounts were being carried at a loss.

For example, we reproduce below the analysis of John Doe & Company's account for the month of November, 1925:

Daily average balance.....	\$9,313.00
Average in process of collection.....	8,893.00
Net balance.....	\$420.00
15 per cent legal reserve.....	63.00
Loanable balance.....	\$357.00
Yield for 30 days at 8 per cent.....	\$2.71
Service charge for checks charged to account (468 at 1 1/2 cents)....	\$7.02
Total items deposited (118 at 2 cents).....	2.36
	9.38
Net loss.....	\$6.67

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Cash Income for the Farmer

By S. J. HIGH

President, Peoples Bank & Trust Co., Tupelo, Miss.

Less Dependence on One Crop and More Reliance on Products Bringing Current Income Is Need. More Attention Should Be Given to Sound Principles of Farming Up to Harvest Time. How the Mississippi Bankers Helped Their Farmer Customers.

THE greatest problem before the farmer today is to produce sufficient net income on the farm to meet the increased needs of the family.

The first fundamental fact about agriculture is that it is the one business where the result of a person's labor is absolutely dependent on the weather, which, in most sections, is not the same each year. The farmer is never certain in the planting time what his harvest will be. A manufacturer can control his output and arrive at his cost of production—this is almost impossible in agriculture.

The second fundamental fact is that a one-crop system is unsafe. I am a believer in cooperative marketing. The plan is sound but the management must be able. Weak places in the organization will destroy the efficiency of the plan. This proposition has been before the public almost continuously for two years and the experts have not yet agreed, so why should a layman dip in with his ideas? My position on the much-discussed marketing end of the agricultural problem is that of the Orderly Marketing Committee of our Division, which is as follows:

"The bankers fully realize that bankers and farmers are partners—what vitally affects one affects the other. We are sympathetic with any plan that will work out a greater stabilization of prices for agricultural products in harmony with sound economic principles, and we pledge our hearty cooperation in helping to bring about a solution of this problem."

The farmers who send out the S. O. S. signal are the ones who are usually following the one-crop system. The complaint that went out from the corn belt last year was practically the same as went out from the cotton belt a few years ago, and from the same cause.

The Ideal Situation

THE ideal farming situation is for the farmer to produce his crop on his own money and market it cooperatively, as the demand for it arises at a reasonable price. Economic laws cannot be changed by legislation, nor can the mistakes and bad judgment of the farmer be righted by bonuses or price fixing. I have posted in my office the following quotation:

"Economic Law Is Like the Tide: Swim with it and you 'Get ahead' in the world; swim against it and soon or late it will carry you 'on the rocks.'"

The demand on the farmer, as on all others, for more money to meet the increased cost of his living expenses and the necessary luxuries brought about by a higher scale of living has caused the farmer to

overlook the fact that a one-crop system is unsafe and the fact that the law of supply and demand is unchangeable. The demand on him for money has been continuously increasing and, in his judgment, the only relief is to increase his cash, or principal money crop to where it will bring in sufficient income to meet his needs. He has overlooked supply and demand and the essential need of raising his living on the farm. It is never a good plan to put your eggs all in one basket, no matter how strong the basket or how plentiful the eggs.

I think we should give more attention to the sound principles of farming up to harvest time. However sound and however able your management, cooperative marketing cannot be a cure-all for the agricultural problem.

An Awakening in Mississippi

TO give some of my personal experiences as a banker which extend over a period of thirty years and the results we have secured in our county and section, it may be interesting to recite that ten years ago we had practically a complete cotton crop failure due to the ravages of the boll weevil and a corn crop failure caused by the weather.

It waked us up and aroused the bankers to action, and we then adopted the slogan: "Pigs, Poultry and Dairy Cows on Every Farm! Selling Cream, Chickens and Eggs, Fertilizing your Land, Raising your Food and Feed, and MORE Cotton on LESS Acres."

We succeeded very well with this, but our progress was not fast enough to suit us.

We realized each year that the farmer needed a supplemental weekly income, which in our territory could best be produced by the chicken and the cow; so about three years ago the Lee County Bankers Association, comprising all the banks in our county, employed a dairy expert at its expense and put him in the field to induce and encourage the farmers to get more and better cows and to sell cream. The result has been most gratifying. Our dairy interests have increased and we have been shipping for the past two years over 200 car loads each year of young heifers and cows, most of them going into northern Illinois and Iowa. Bankers may be expected to doubt this statement, as it is certainly reversing the old order.

It is very helpful and almost necessary to any farmer to have a weekly income to meet the current weekly expenses of the household and farm. So far as possible farmers should avoid financing their crop on a credit,

and the most practical way to avoid debt for current expenses is for the farmer to keep cows, poultry and pigs, raise some food and vegetables, and sell cream, chickens and eggs, realizing a weekly cash income from their sales to meet current expenses of the household and farm and also to help in paying for gasoline, oil and occasionally a new tire for the car.

It is for their own interest that bankers get in behind some constructive plan of agricultural work. They should cooperate with their farm extension forces and adopt some plan best adapted to their community's immediate needs. Whatever they undertake should be done cooperatively. Let all the banks of the county or section organize an association and work as a whole. Individual efforts invite jealousy and produce destructive competition. The banks of any section usually represent the business interests of that section, and when they agree they can put over any sound plan. Take interest in the farmer as well as from him.

In addition to the dairy expert, whose salary and expenses are paid by the banks, we have a County Agent, also a Home Economics Agent, whose salaries are paid by the county.

The cost of each bank's pro rata share of the budget for our dairy expert is just about the amount we had previously spent for calendars, so it might be said the banks of the county have exchanged calendars for cows.

Plan Will Work Anywhere

IF the banker will look around in his section he will see that those farmers who are raising their food and feed and have good dairy cows and chickens, supplying their own family and selling the surplus eggs and cream, have generally grown more prosperous and are less embarrassed by debt. Now, if this plan helps a few why would it not benefit them all?

Most agricultural sections should have a creamery, and practically all of them should have a hatchery.

Do agricultural advertising; put helpful pamphlets in the bank lobby to be taken free by the farmers. Get out stuffers in bank statements calling their attention to something worth while in agriculture. Keep better farming constantly before them. Our dairy expert has a truck and an electric light machine, and a moving picture machine, and to help him get his plans before the farmers he puts on a series of picture shows throughout the county and always

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Three C's of Success in Banking

By DR. WALTER F. DEXTER

President, Whittier College, Whittier, Cal.

Capital, Capacity and Character Are the Essentials. Mental Acumen, the Ability to Think Straight, Is As Necessary to Good Banking as Are Strong Financial Resources. To Meet the Human Element Problem a Professional Technique is Required.

I AM compelled to believe, because of past experience, that a banker's friendship is the greatest asset possessed by a young man. I well remember the problem confronting me a few years ago while attempting to carry a course of study in Columbia and later in Harvard Universities.

After leaving the state of Iowa, and taking up residence in New York City, I realized that it would be impossible for me to complete my university course with the funds then on hand. I communicated with my banker, Mr. Clyde D. Proudfoot, of Indianola, Iowa, and asked him if he could arrange for me a loan of \$1,000. This took more than ordinary faith and courage. To my delight and somewhat to my surprise, Mr. Proudfoot wired back that I could have the money.

My friend the banker made it possible in no small degree for me to accomplish the one outstanding ambition of my youth—graduation from Harvard University. For this reason I have a profound and abiding appreciation of the banker as a personal friend.

Through study and investigation, I have come to believe that the successful banker is a unique figure in the business and moral life of the average American community. This is true not so much because of the wide scope of his financial influence, but because of the ethical principles which control his corporate responsibility. The term banker to the average citizen postulates certain moral qualities. The profession suggests well defined standards of action, while the patrons demand them.

Emphasizing Human Virtues

THE banker attaches utilitarian values to the moral and social code of religion and education. Too often the theoretical thinker has emphasized morality for morality's sake alone. It has been made an end in itself, much the same as sacrifice has been made an end in itself. The close observer of human progress admits that sacrifice for the sake of sacrifice alone is worse than absurd, but few there are who do not give sacrifice a large place in human affairs when it is directed toward a concrete and definite result in human society, and consequently is made a means of almost unlimited service.

Because of an economic advantage the banker has helped society to direct virtue, sobriety, honesty and frugality toward well defined aims or purposes, and thus has helped to raise the standard of living to a

higher level of satisfaction. He has given utilitarian as well as spiritual value to the fundamental virtues of the average man. The banker has taught the challenging lesson that honesty and frugality and industry are good for society. He has placed the social rather than the individual emphasis upon these outstanding human virtues.

I am of the opinion that the successful banker, and the modern educator have a common philosophy of life. I have purposely emphasized the word success, and have intentionally limited its meaning in terms of public welfare.

(A) They both believe in the improbability of human society through the fundamental processes of education, and through the proper control and direction of wealth.

(B) They believe in the efficacy of public service through the promotion of material prosperity on the one hand, and through the advancement of ethical and social enterprises on the other.

(C) They believe in the creation and conservation of human values through cooperative effort.

Essentials of Good Banking

WITH this expression of appreciation and analysis of the banker's position, and with this understanding of the common philosophical background of both your profession and mine, may I suggest that my purpose generally is, first, to influence public opinion and consequently public action; second, to introduce some new and important fact or theory, and, third, to encourage progress through analysis and synthesis. My message is limited primarily to the third general field—that of encouragement. I am to deal with the successful banker as we find him in thousands of American communities. I am to analyze his philosophy of life. I have thus limited the field in order to give myself ample opportunity to deal with that phase of your profession which makes it rank second to none in the field of American business. We must of necessity be constructive rather than critical in our thinking as we discuss the three essentials of good banking.

The good banker is a man who appreciates the significance of the third letter in the English alphabet, as it introduces the words, Capital, Capacity and Character. Upon the value assigned to these symbols in human thought depends his usefulness and progress. These are the three "C's" of success in banking.

I need not dwell long on an analysis of the meaning of the first word. Capital should be considered in terms of resources and ability. Practically every published article dealing with the problems of money and banking directs the attention of the reader to the necessity of capital. We are

told that the banker must have sufficient money invested in his institution to guarantee safety to his depositors, and that the patrons of the bank must have sufficient resources to guarantee the repayment of borrowed money. These facts are self-evident. We, therefore, hastily dismiss the discussion of the subject of financial resources.

Having admitted that financial capital is essential, we must now center our attention upon capital in terms of mental processes. This type of capital is most essential. A good banker must be mentally alert. This qualification, for the most part, he has inherited from those who have gone before him. And may I say as emphatically as words can analyze thought, that an individual who is not mentally alert is usually a disadvantage to any profession, and particularly to that of the high and honorable profession of banking. He fails to appreciate the significance of a professional standard which is the goal of every intelligent and optimistic bank executive. He is the man who demands honesty on the part of his patrons, while in his private and secluded life, he practices dishonesty. He is the individual who demands obedience to law on the part of the public, while he himself disobeys some of the fundamental laws of the land. He is the banker who undermines human society by placing before the immature personalities of a community a dual standard of action.

Mental Acumen Necessary

THE successful banker must possess a reasonable amount of mental acumen. He must be able to think straight, which of course depends upon the nature and substance of his nerve fibre. In addition to this inheritance, he must have passed through a series of reactions that make possible the functioning of his inherited mental capital.

May I emphasize the necessity of straight thinking. You may believe that this is an overworked term. Just what do we mean by this expression? Psychologists recognize two misdirected types of thinking which may become a direct hindrance to the banker's success. Our attention has been called by eminent psychologists to the possibility of rationalized thinking. Professor Wells in his book "Mental Adjustments" analyzes this mental reaction in the story of the fox and the grapes. It is too well known to be repeated in detail, but we must mention the fact that the fox wanted the

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Credit Files for the Country Bank

By M. H. MALOTT

President, Citizens Bank, Abilene, Kansas

IN the old days, and in fact not so long ago, the placing of a bank loan was an intimate and informal transaction between the banker and his customer, entered into on the basis of mutual personal knowledge, often the result of a personal friendship of many years duration. Years ago, however, this "hour-glass" method of doing business was superseded in the city banks by a complete system of credit files, providing any officer of the institution with an accurate historical record of the financial ability of each of the bank's customers.

Today, I believe accurate credit data is a problem not only for the city bank, but for the country bank as well. The country banker has reasoned that he is in more personal touch with his customers than the city banker, but is he? My experience leads me to doubt that this is so.

Country Bank More Complex

AT least, three reasons are apparent for the necessity for credit files to help the country banker. In the first place, the country bank is a more complex organization than formerly; a smaller proportion are "one-man banks," than in the old days. With this growth in personnel, it is no longer feasible, if at all possible, for the customer to deal always with the same bank officer. Yet there is the same demand from the customer that his banker should be his business and financial advisor, and be able to advise him with considerable knowledge and background concerning his financial affairs. It is therefore important, if unsound and conflicting advice and harmful transactions are to be avoided, that basic credit information concerning any customer be available to all of the bank's officers, as a substitute for the personal and informal background formerly carried in the head of the single banker.

In the second place, the bank of today is a safer unit for the customer to deal with than the banker of yesterday. The bank never dies, never goes on a vacation, and if wisely managed, seldom ceases to operate. In other words, a written record in the form of credit files assures permanency and continuity of service to the customer.

In the third place, banking directorates should and are becoming less a group to rubber-stamp the loaning officer's operations, and more of an advisory body bearing active and direct responsibility for the bank's operations. The credit file is an adjunct to a successful directors' meeting, and furthermore expedites the work of the bank examiner in the classification of the paper.

The next question to be answered is—in what manner will the credit file aid the officer in making a loan to the customer? Let me emphasize at the start, however, that no credit file provides a formula to take the place of the banker's judgment. Business is not an exact science, and most transac-

tions are based on experience, and on knowledge and information possessed or obtained. The credit file is merely an aid to the banker, whereby he is enabled to substitute a reasoned judgment for the personal hunch of the banker of yesterday. In using the credit file then, the banker must as a matter of fact, make a number of important decisions.

First, is the statement of condition shown on the credit card accurate? Is it a true picture of the financial condition of the customer, or is it built by him to meet his own desire for credit?

Second, does the credit file show the customer to be gaining or losing over a period of time? How has he been affected by the vagaries of the business cycle? Is his inventory both at the peak of commodity prices, and at the deflation period maintained at a sound ratio to his current liabilities?

Third, does the credit file reflect a satisfactory present condition?

Fourth, will the money borrowed be wisely spent? Will it go into fixed investment, or into quick assets? Where is the money coming from with which to re-pay the loan?

In all of these decisions the comprehensive historical data of the credit file will come to the banker's aid.

Not a Real Intrusion

IT may be felt by some bankers that their relations with their customers will not permit the intrusion of formal annual credit analysis. My experience has been, however, that the customer's reaction is far from an insuperable obstacle. No customer would expect to receive a real estate loan without giving the fullest information concerning the value of the property mortgaged, and I have found him no more inclined to object where information is requested for a personal loan.

There are few things, if any, in the development of banking that are more advantageous than this requirement of financial statements. For many years, all of us were inclined to look upon our risks largely in a general way, thinking that some of our customers were making money who were really losing, while in some cases men were forging ahead where we did not give them credit for it.

I thoroughly believe that the financial statement is the only intelligent basis for credit from the banker's point of view. Furthermore it frequently enables the banker to be of greater assistance, for, in going through the statement and discovering the weak spots, the banker can aid the customer to correct any unbusinesslike and unprofitable items and lines that are becoming a part of the business. The banker, like the doctor, occupies a position toward the customer of a confidential nature, and only by the most candid showing of conditions can the banker advise the customer as he should, show him where he is drifting, if

the statement shows an unsatisfactory condition, and arouse in him the necessity for changing the basis and plan on which he has been operating.

The information which the borrower tells the banker should be put into writing—that is, into a signed statement. The question of the title to his real estate is pretty well settled that way; he learns what life insurance the applicant is carrying and to whom it is payable; and he makes reasonably sure that all of the liabilities are listed. We have each of us, I suppose, had the experience of a man, who looks at our statement form, and then gets up and says: "I will fix this up at home and send it in," and then never brings it back. It simply means that he does not dare give in writing the statement he has made orally; and so we save our money.

The solvency and the safety of any bank lie in its note case. And very often the solvency and the safety of the representative business man and farmers of the community lie in the soundness of its banking institutions. Therefore, may not the country banker adopt the slogan, "A credit file on every borrower with unsecured loans of \$500 or more," as his part in furthering the intellectual and moral standards of banking, in developing his service to the business of America, and in helping to create a professional spirit for business itself, which has been aptly described as the oldest of the arts but the newest of the professions?

To Issue Primer on Bank Insurance

A PRIMER on bank insurance to enable the banker to determine what his bank really needs in the way of insurance and what contract or contracts are best suited to his bank's requirements is to be distributed among the members of the American Bankers Association, according to the report of the Insurance Committee to the Executive Council at Los Angeles. This pamphlet, in simple, non-technical language, will describe the various forms of insurance contracts that are adapted to the needs of the banking business.

The tentative outline of the booklet shows it proposes to cover fidelity bonds, burglary and robbery policies, forgery and alteration policies, messenger robbery policies, bankers' blanket bonds, safety deposit box insurance, registered mail insurance and depository bonds.

The recommendation was made that the incoming Committee on Insurance give serious consideration to the advisability of withdrawing the official sanction that has previously been accorded several forms of bonds that do not bear the American Bankers Association copyright.

"Some improvement is noted in the underwriting experience on blanket bond risks," the committee reported.

Turnover in Bankers Acceptances to Be \$4,000,000,000

By JEROME THRALLS

Chairman of the Committee on Acceptances

Further Concentration of Acceptance Business During Year a Wholesome Phase in Our Development. Situation in London Market Vastly Improved. Due to Keener Competition Close Cooperation Would Save Commissions Otherwise Going Abroad.

WE are pleased to report that over \$3,650,000,000 of trade has been financed during the past twelve months with American bankers acceptances. This great volume of business is a tribute to the progress and prosperity of this country, and is a positive evidence of world-wide recognition of the value of dollar credits.

The total of American bankers acceptances issued and outstanding as of Aug. 31, 1926, was \$585,000,000. The monthly average for the current year was approximately \$685,000,000. About 15 per cent of this total represented the financing of strictly domestic business; that is, goods in transit and goods stored in independent warehouses; and 85 per cent of the total covered foreign business—imports and exports. Of the foreign financing, about 30 per cent represented the movement of goods between foreign countries and which did not touch our own shores. This financing of shipments from one foreign country to another foreign country is a most important and satisfactory development. The acceptance commission realized on all of this business ranged from 1 per cent to 2 per cent per annum.

DURING the year there has been a further concentration of the acceptance business. Eighty per cent of the total volume of accepting done in this country is now being done by fifty prominent banks, whereas in April, 1920, 450 banks reported acceptances issued and outstanding. Two hundred and seventy-seven reported for the corresponding period of 1925, and 173 for 1926.

This concentration is a natural and wholesome phase in our development. In 1920 some banks were offering to lend their credit abroad when in reality they had no credit to lend. They were well regarded locally, but were not widely nor nationally known institutions. The concentration, however, appears to have gone too far. Many widely known banks whose credit would go readily in the open market at the best rates, are not availing of this opportunity for profit and for helpfulness to their customers. One such bank recently indicated a desire to engage in the business of accepting, but reported there was not any such business to be had in the local territory. A survey revealed an annual total of over \$87,000,000 of export and import business there, all of

which might to advantage be financed with acceptance credits. This same condition exists in other important centers.

The open discount market has continued to absorb readily the output of bankers bills. The turnover in the market this year will again exceed \$4,000,000,000. The rates have been favorable and rather steady, although the tendency has been toward higher levels throughout the year. The range of rates has been from $3\frac{1}{4}$ to 4 per cent. The present rates of discount for prime 90-day eligible bankers acceptances are: bid 4 per cent, ask $3\frac{3}{4}$ per cent. At these rates savings banks, corporations, insurance companies and foreign investors have found acceptances to be very attractive, in fact the demand at $3\frac{3}{4}$ per cent for the moment exceeds the supply. It is believed that the demand from these sources will become even more pronounced as the U. S. Treasury Department proceeds with its retirement of certificates, Treasury notes and other short term government obligations.

THE large commercial banks that have been adjusting their daily cash positions through the purchase and sale of acceptances and loans to the open discount market have been more than pleased with the results. The portfolios of acceptances carried by the discount houses and dealers have averaged \$60,000,000 in the aggregate, during the current year.

In addition to these bills a large supply of United States Treasury certificates, treasury notes, and other short term government obligations are being carried by the discount market. These holdings are carried mainly with funds borrowed at call and at rates slightly under the bid rate for thirty-day bankers acceptances. A fair supply of funds has been available to the discount market during the past thirty days at an average of $3\frac{3}{4}$ per cent. The Federal Reserve banks have cooperated closely with the market. They have been ready buyers of bills and have accommodated the market at times when funds were not available to the market from other sources.

A very important step recently taken was the securing of an enabling act under which life insurance companies in the state of New York are permitted to invest in bankers acceptances.

The effort to bring about the use of standardized forms of letters of credit is bearing fruit. A number of the most prominent

banking institutions in America recently agreed upon the interpretation of the conditions contained in the forms now in use.

The United States government has established a department of cooperative marketing in the Department of Agriculture. Through the activities of this Department and the efforts of the government toward improving our warehousing system, much is being accomplished that may lead to an increased use of bankers acceptances. Experts have made a careful study in order to determine as to whether more liberal use can not safely be made of such bills in financing domestic business. Their findings have been placed before the Federal Reserve Board.

IN the development of the acceptance business in this country we have followed closely the practices and policies that have prevailed in London for generations. Checking with the London market we find the situation there vastly improved. As predicted when England returned to the gold standard, the pound sterling has steadily forged ahead. It has regained much of its pre-war prestige and is now a keen competitor of the dollar the world over—especially is this true in the field of acceptance financing. The spread as between the London rates and those prevailing in the New York market during the year has ranged from $\frac{1}{8}$ to 1 per cent, the London rates being continuously higher than ours.

In view of the prospects of keener competition from abroad, it would appear to be to the interest of every American banker to give careful thought and study to the acceptance method of financing. Through close cooperation on the part of our leading bankers, the gains already made in this important field can be consolidated; further progress may be insured, and many millions of dollars can be saved annually to the commerce and industry of the country.

By the development of this business we shall be saving commissions that would otherwise go to bankers abroad, we shall be attracting deposits from abroad, we shall be increasing our exchange operations, and, most important of all, we shall be giving valuable aid to our manufacturers and producers in their efforts to develop markets for American goods and products.

Your committee has cooperated closely with the American Acceptance Council and commend the good work that is being done by that organization.

The National Bank Division

Adopts Resolution Recommending That National Banks Have Right to Home City Branches. Bars Branches of Any Kind in States Not Permitting Branch Banking. Favors Rechartering of Reserve Banks at Next Session of Congress. Spirited Debate.

THE National Bank Division, at its annual meeting at Los Angeles, went on record, by a vote of 159 to 35, as favoring the enactment by Congress of the McFadden National Bank Bill, without the Hull amendments. A substitute resolution, which included indorsement of the Hull amendments, was rejected, 152 to 41.

The resolution, which was adopted, was drawn by a committee composed of H. H. McKee, president of the National Capital Bank of Washington, D. C., chairman; F. M. Law, vice-president of the First National Bank of Houston, Tex., and Charles Cason, vice-president of the Chemical National Bank of New York. In text it was identical with that adopted later at a special session of the American Bankers Association, devoted to consideration of the McFadden bill.

THE action of the National Bank Division came at the close of the Division's general program. Addresses were made by W. W. Woodson, president of the First National Bank of Waco, Tex., on "Relations with Clients," and by P. D. Houston, president of the American National Bank of Nashville, Tenn., on "Bond Departments and Investments." These appear elsewhere in this issue.

Mr. Woodson, in the course of his talk, read a telegram from Waco which told of the rapidly falling price of cotton, and said that the farmers were selling every bale of their crop regardless of the advice of bankers to hold it. "At the present rate," the telegram said, "this season's crop will be out of the hands of the farmer before remedial legislation suggested can take effect." The telegram suggested that Mr. Woodson call a conference of southern bankers at the convention to consider the wisdom of requesting the governors of the various cotton states to call the legislatures in special session to enact laws restricting cotton acreage next season and providing for control of the surplus crop along the lines followed in the coffee and rubber industries in some countries.

"It is true that over in Cuba, the Congress passed a law restricting the production of sugar in Cuba, and immediately the price of sugar went up under those restrictive laws," said Mr. Woodson. "They could control it over there very well, because the

refiners control the land, and it could be easily handled.

"I am just enough democratic to be opposed to any national legislation or state legislation trying to control our affairs when it comes to our business. I think we are big enough to handle it, and when we raise too much cotton, I think we can cut it down and raise what the world will consume.

"It is foolish to try to pass laws to cure

chairman; H. J. Haas, vice-president of the First National Bank of Philadelphia, Pa., and Robert Strickland, Jr., vice-president of the Fourth National Bank, Atlanta, Ga., submitted the following selection of officers for the year, which was adopted:

President, C. W. Carey, president of the First National Bank, Wichita, Kan.; Vice-President, E. A. Onthank, president of the Safety Fund National Bank, Fitchburg, Mass.

Executive Committee, a term of three years: F. B. Washburn, president of the Mechanics' National Bank, Worcester, Mass.; R. F. McNally, vice-president of the National Bank of Commerce, St. Louis; J. W. Barton, vice-president of the Metropolitan National Bank, Minneapolis, and R. E. Harding, vice-president of the Fort Worth National Bank, Fort Worth, Tex.

Chairman of the Executive Committee, E. H. Sensenich, president of the West Coast National Bank, Portland, Ore.

The McKee Resolution

THE resolution on the McFadden bill, which was presented and moved for adoption by Mr. McKee, and which resulted in a long and at times spirited debate, read:

"Resolved, that in view of the existing legislative situation, the National Bank Division of the American Bankers Association urges the convention of the American Bankers Association, in session now at Los Angeles, Cal., to recommend to Congress the final enactment of the so-called McFadden National Bank Bill, H. R. No. 2, including the provision rechartering the Federal Reserve banks, at the coming session, with the following restrictions upon branch banking:

"First, that no national bank be permitted in any state to establish a branch beyond the corporate limits of the municipality in which the bank is situated; second, that no national bank be permitted to establish a home city branch in any state which does not at the time of such establishment permit the state banks to establish branches; third, that no state bank be permitted to enter or to retain membership in the Federal Reserve System if it has in operation any branch which may have been established after the enactment of H. R. No. 2 beyond the corporate limits of the municipality in which the bank is



C. W. CAREY

President National Bank Division

a situation like that. We just produced 16,000,000 bales last year and 16,000,000 bales this year, and as long as we are going to do that we are going to suffer the consequence, and no law will correct it. We should cut the acreage down and produce less cotton, even if we let the acreage rest awhile."

The Division's New Officers

THE Nominating Committee, composed of J. Elwood Cox, president of the Commercial National Bank of High Point, N. C.,

situated; fourth, that no branches which may have been established after the enactment of H. R. No. 2 beyond the corporate limits of the municipality in which the parent bank is situated, be permitted to be retained when a state bank converts into or consolidates with a national bank, or when two or more national banks consolidate."

Mr. McKee reviewed the progress and setbacks of the McFadden bill and the Hull amendments in Congress and explained the present status of the legislation. He emphasized the fact that the resolution offered was an anti-branch banking resolution, as there was nothing in it which provided for the extension of branch banking outside of the strict corporate limits of cities in which the national banks are located. He declared that under no circumstances would it be possible to get Congress to pass a measure, carrying a provision for branch banks in contiguous territory. If Congress should enact the McFadden bill with the provisions suggested it would only permit national banks in non-branch banking states to carry on limited branch banking, in fair competition with state banks, if and when the legislatures of those states at some future time should enact a branch banking law giving that privilege to state banks, he emphasized.

"The national banks are up against a stone wall," Mr. McKee said. "If they do not get this legislation, the national bank system is going to crumble. If that happens, one of the surest and safest foundations of the Federal Reserve System will be destroyed. Mr. McKee said that he was convinced the Senate would never yield in its opposition to the Hull amendments and recited that one outstanding Senator, furthermore, had expressed the judgment that they were unconstitutional. (Mr. McKee later addressed the special session devoted to consideration of the McFadden bill and his views are reported fully there.)

E. N. Baty, the secretary of the Committee of One Hundred, recited how the American Bankers Association at its 1924 convention in Chicago had voted unanimously to recommend the passage of the McFadden bill, with the Hull amendments, and criticized the phraseology of a letter by Mr. McKee of Washington. President Wilkinson called Mr. Baty to order, stating that he "was not discussing the question before the House but a matter that has no relation to it."

Evans States Congress Opposes Hull Amendments

ASSURING the meeting that Mr. McKee was "thoroughly familiar with the attitude of Congress through personal contact with many Senators and Representatives," Joshua Evans Jr., executive vice-president of the District National Bank of Washington, D. C., said he had been a worker with Mr. McKee on the National Bank Publicity Committee.

"We were all in favor of passing the McFadden bill with the Hull amendments, but we ran into a condition," Mr. Evans stated. "And right here let me say if this Association or any other association in the United States adopts resolutions that will say to Congress that 'We want certain legislation,' and 'We want it this way, or not at all,'

then they are butting their heads up against a stone wall.

"Our position in respect to the McFadden bill is as Mr. McKee stated. We are up against an impasse, and the thing for us to do is to get the very best that we can and get something that is fair to all. The reason the Senate is taking the position that it is taking in respect to the McFadden bill with the Hull amendments is because the Senators of the United States recognize the injustice and unfairness of the Hull amendments.

"Many of us have our views as to what members of Congress and Senators do, but let me testify to this and speak in behalf of Congress and the Senate of the United States. It is a very, very hard thing to get through both houses of Congress any legislation that is on its face unfair."

W. H. Doyle, cashier of the Bank of Platteville, Wis., gained the floor. "I would like to ask the gentleman what efforts, if any, he or his associates or the proponents of branch banking made to prevent the enactment of the Senate measure?" he asked. "I should like to have him answer that question. What attempt, if any, did you or your associates make to prevent the enactment of the Senate bill, one of the rankest branch banking measures ever introduced in Congress? While that measure was before the Senate for consideration, not one word of protest went up from you or your associates against that measure when it was conceded to be a state-wide branch banking measure.

"I want to say to you that every fundamental thing in the McFadden bill would have passed at the last session of Congress if your branch banking friends and associates had permitted it to be introduced in a separate bill, but you were insistent upon passing a branch banking measure at any cost. You were willing to sacrifice the rights—"

"I will have to call the gentleman to order," President Wilkinson interrupted. "You will have to keep personalities out of the discussion."

Harry V. Haynes, president Farmers and Mechanics National Bank, Washington, D. C.: "Mr. President, I rise to a point of order. I sat this morning in a meeting of the State Bank Division. I denied myself the right to take the floor because I was not a state bank man. I listened, however, to the proceedings. The gentleman who had the floor a moment ago made the speech in that meeting introducing Congressman Wingo. I assume, therefore, that he is a state bank man.

Mr. Doyle: "I assumed, gentlemen, inasmuch as Mr. Goebel was in our convention, that you would accord me at least the same privilege."

President Wilkinson: "I would like to make a statement. This is a meeting of the National Bank Division of the American Bankers Association, and no one not a member of this Division, except by invitation, will be allowed to speak or vote on any subject before this Division."

O. F. Reich, a director of the First National Bank of Dalton, Cook County, Ill., told the meeting that branch banking was still on trial and that he thought the proposition before the Division should be considered from the standpoint of whether the bankers were either for or against branch banking. He said that the little banks, spurred by the

instinct of self-preservation, were fighting for their lives against the big institutions, and urged the Division to "put the brakes on branch banking to the greatest degree that is possible" and "halt anything that tends toward branch banking until we can see how it works for a longer period of time." (Mr. Reich's arguments in favor of the Hull amendments were repeated before the special session of the Association and appear fully in those pages of this issue devoted to that debate.)

Frame Fears Credit Monopoly

ANDREW J. FRAME, chairman of the board of the Waukesha National Bank of Waukesha, Wis., spoke in favor of the Hull amendments.

"Permit me to say that I am now eighty-three years of age," he began. "I have been in the banking business for sixty-four years. I believe in the prosperity of the United States providing for some individualism that builds up this nation instead of monopolization."

"In my judgment the Hull amendments are the only protection that the country bankers of the United States have, which will prevent them from eating us up, or, as the Governor of the Federal Reserve puts it, putting us out of business.

"Perhaps I am an old codger and ought not speak at all, but when you talk about constitutionality, if the states of the United States with forty-eight different laws can impose those laws which are passed upon each state and say automatically it must be adopted by the United States, it seems to me one of the most unconstitutional things that ever appeared in all the history from the time of the adoption of the Constitution of the United States.

"It is a fearful proposition, in my judgment. I think that every man here had better think four times before he attempts to pass any such proposition as that, because during the Civil War they say that U. S. Grant shot states' rights to pieces then, and I do not think there has been any change from that time to this.

"There is just one point I am going to make. There are but five banks in London that are dominating the destinies of Great Britain, and that has come about in my sixty years of banking experience, largely, not entirely. There are just eleven banks in Canada. You cannot borrow over \$600 from 4500 sections of Canada without wiring down to Montreal. Do you want to adopt that in the United States?

"There is just one other point. If Great Britain is dominated by five powerful banks, if Canada can be dominated with three (that is what they tell me it is, instead of eleven), how long will it be before New York and Chicago, and perhaps one or two other cities in the United States may dominate all banks in the United States? I want to warn you. The Lord is going to take me home soon. Think four times before you commit suicide.

"Did we not finance the World War through our small banks throughout the United States? Eleven million dollars was raised in the little country of Waukesha County, comprising 50,000 people. That was done throughout the United States. If you want to preserve life and liberty in the pursuit of happiness think four times before

you allow any material increase in the preservation of our banking on the outside of the house.

Governor Bailey Speaks

W. J. BAILEY, Governor of the Federal Reserve Bank of Kansas City, proposed that the Hull amendments be endorsed. "What I want to find out is where we are at," he said. "I do not object to these resolutions as they are read, but I do not think they cover the issue that is discussed here. Therefore, I move that the Resolutions Committee's report be amended to say that we are in favor of the passage of the McFadden bill with the Hull amendments."

"That is fairly and squarely before this meeting. These three or four resolutions, as harmless as a cat with its claws pulled, are brought here to put down the throat of this convention that time after time has gone on record in asking them to voice themselves under some other pretext."

"I am utterly opposed to branch banking. I ask you to compare Canada with America. I spent three weeks in Canada trying to study the branch banking laws in Canada, less than a year ago. I believe that this is what is the matter with Canada. They have had the same length of life that our United States of America has had. They have had about the same area. They have wonderful advantages. We have advantages of climate that they do not have. We have increased 100,000,000 to 114,000,000 people, and they are 9,000,000 people. The loadstone around Canada is that the credit of Canada is distributed by eleven banks; practically five banks, as a matter of fact. I would rather have the credit of America distributed by their 30,000 banks than by five banks."

"I want the American Bankers Association to understand what they are voting on. I think that you should pass the resolution up or down, fairly and squarely, whether it is with the Hull amendment or not. My theory and my belief is that it is a gentle entering wedge toward the extension of branch banking. I am willing to submit it to the judgment of the Congress of the United States rather than to any one Senator, whether it is constitutional or not. Many a Senator has been mistaken. When the question of state rights creeps in—I submit that the question of state rights was settled by the stern arbitraments of the sword when Lee laid down his sword to Grant under the trees of Appomattox."

"I say let us eliminate all this folderol, all this subterfuge and bring it down to the square test of whether you are in favor of the extension of branch banking. That is the question that is before you. The Hull amendments put a handicap on it. If this convention goes on record, it is not only going to humiliate itself but it will come back."

"Here is another situation. If the Senate says they won't, and the House says they won't, of course that is a blockade, but can the Senate block the representative body in the American Congress? From whom do they first get their instructions? From the lower House that comes every two years from the American people. That is the statement of a plain, humble American citizen. I want to join with my old friend Frame,

who has been attending the American Bankers Association with me for thirty years. He has been right one hundred per cent all the time."

Mr. President, I move you my amendment to the report."

The motion was seconded.

As a member of the Independent Bankers League of California, J. S. Macdonnell, president of the First National Bank of Pasadena, Cal., said that he believed the Hull amendments, instead of curbing branch banking, would tend to increase it for the reason: "If the state bankers in any state feel that they could achieve an advantage over national bankers, it would be in that state the McFadden bill would pass, although the very name of the bill is to equalize the chances of national bankers as compared with state bankers." "You do," he continued, "the illogical thing in one state to say you will place the national banker upon an equality with his state competitor, but in any other state you will fix him so he cannot possibly compete."

Nationals Outnumbered

R. C. HAWES, vice-president of the First National Bank in St. Louis, Mo., asked the bankers if they realized just exactly what endorsing the McFadden bill with the Hull amendments, would mean. "That means if in the state of Missouri, from which I come, that the 1700 state bankers should decide that they want branch banks, the 160 national banks could never have them," he said. "Is that justice? Is that honesty and integrity to the national bankers?"

"We do not ask for branch banks. We are not fighting for branch banks. We do not want branch banks as they are so termed in the general sense, but we do want common justice and common equality with the state bankers when they receive privileges."

"I heard a lot of talk about the preservation of the unit bank. I cherish a high regard for both the distinguished gentlemen who have preceded me, Mr. Frame and Governor Bailey. I challenge them to repeat and say that the Hull amendments do not allow branch banking."

Governor Bailey: "If you want to discuss equality, equality between national and state banks in Missouri, a state bank can start in Missouri with no double liability; national bank has the double liability."

Mr. Hawes: "I say that the Hull amendments do permit and do provide for branch banking, and I say further to you national bankers that the Hull amendments say if a state shall pass legislation permitting the state to have branches, the national banks in that city cannot have. All we appeal to you for, and all we are asking the American Bankers Association for is common justice to the national bankers of this country."

Mr. Goebel: "Will you please have the amendment proposed by Governor Bailey to these resolutions read?"

Governor Bailey restated his amendment.

Mr. Goebel: "Mr. Chairman, I rise to a point of order. Governor Bailey's proposal is not an amendment to this resolution now pending, because that resolution does not speak of the Hull amendments. It simply proposes to ask Congress to pass the

McFadden bill with certain limitations on branch banking as far as national banks are concerned, and I don't believe that Governor Bailey's amendment is germane to the original question."

Governor Bailey: "I was trying to enlighten the people. The other thing was in a half bushel, and this is the straight goods that we are talking about now."

President Wilkinson: "The chair sustains the point raised by Mr. Goebel."

Governor Bailey: "I move a substitute motion that we are in favor of passing the McFadden bill with the Hull amendments."

The substitute motion was seconded.

Mr. Goebel: "Much as I would like to agree with my old companion, Governor Bailey, with whom I have fought many a battle on the same side, I must disagree. He has got this thing wrong. The so-called Hull amendments will not prevent branch banking. I say it will accelerate branch banks in states that have now no state banking laws, because, as I said this morning, no one likes a monopoly unless we can be part of the monopoly, and there will be such a pressure from the state banks, knowing that the national banks will not have branch privileges, that the average legislature will not resist it and, I say, in place of curbing branch banking in the states that now have it, it is going to accelerate it, and I hope Governor Bailey's substitute motion will not prevail."

Interfering with States

W. W. WOODSON, president of the First National Bank of Waco, Texas, said: "I want to call your attention to a situation that developed in Texas. We have no branch banking in Texas and I hope we never will have it. I am opposed to it."

"We ran into this situation. I am president of a national bank that is a member of the Federal Reserve, and I am president of a state bank that is not a member of the Federal Reserve. If these arguments are correct and the Hull amendments are enacted, and Texas passes a law allowing branch banking, my state bank can put in branches and my national bank cannot. Is that fair? Is that right? There are twenty-six states that are strong against branch banking and we should be strong enough to prevent it in our state, but with this Hull amendment, you are going to tie the hands of the national banks in Texas and tell us we can not have branch banking, if the state should ever pass a branch banking law."

"That is the trouble with bankers in states who go ahead and do their duty. In order to curb branch banks in those states permitting it, you come over in Texas, interfering with us who are trying to run our affairs and who are keeping branch banking out, and who are going to fight against it. I think if you are going to pass legislation to curtail branch banking in those states that already have it, you ought to let us alone. We can run our affairs. But if you tell us national banks that we cannot have it, then we ought to tell the state banks that they cannot have it, too. They ought to be on the same basis."

(From the floor) "The independent banks

and the national banks will be the two bodies that will oppose such legislation, whereas in the national banks automatically they will not participate. They will not care. It will only be the independent banks, and the Hull amendment is the nearest thing to a brake on it. If you have got anything better, let's hear it."

Mr. Woodson: "Those resolutions hold the branch banking down to where it is, and they limit it to cities, and they also protect us in states where future legislation will take place. My state bank is not a Federal Reserve Bank member."

E. E. Gard, president of the First National Bank of Glendora, Cal., said: "I agree with my friend from Texas. If they put the Hull amendment in, any time the independent banks can be voted out. I am an independent banker like my friend from Pasadena, and I say that the resolution that was reported will curb this better than anything that has come up this afternoon."

"Now I am no big banker. I went into a little bank out there when it was only \$148,000. It is now nearly a million. I say that the independent banker can take care of it better; can take better care of his people, because he knows them, but we can not put down branch banking by putting through the Hull amendment. Why waste time?"

J. S. Pomeroy, vice-president of the First National Bank of Minneapolis, Minn., opposed the substitute motion.

"I did not intend to speak on this subject," he said, "but I am absolutely opposed to the substitute motion. I am convinced that if this amendment is adopted, we will have branch banking in Minnesota quicker than we would without it. Already in the state of Minnesota, which now does not permit branch banking, there is a movement, if the Hull amendment is passed, to give the state banks the right to have branch banks."

"For fifty years, before the Federal Re-

serve Act was put into operation, the national banks of this country furnished the circulating medium upon which the banking business of this country was conducted. Did the state banks contribute anything to that circulation medium? Should we be influenced by the propaganda of state bankers against the national banks to give them equal rights with state banks? Do you mean to tell me that we are going to submit and continue to support and create a Federal Reserve System and maintain it with unequal rights?"

"I think the Federal Reserve System is on trial today, and without the national banks of this country, and unless the national banks of this country can have equal rights with state banks in all states in which they are operated, the Federal Reserve System is going to decay, and you have something more to think about than whether you are going to have some branch bank in a small town in some one state or other. We have got to have equal rights for national banks or the Federal Reserve System will not be maintained."

Mr. Bailey: "Would you be in favor of liberalizing the national bank every time some wild-eyed law is passed in a state, so we might have equal chances?"

Mr. Pomeroy: "I am in favor of doing for the national bank what you do for any state bank in any state."

Nahm Asks for End of Deadlock

MAX B. NAHM, vice-president of the Citizens National Bank of Bowling Green, Ky., told the Division that, as chairman of the Federal Legislative Committee of the American Bankers Association he had tried hard to get Congress to pass the McFadden bill with the Hull amendments but had failed. Having had their "day in the sun," the advocates of the Hull amend-

ment should stand aside and let those who are seeking relief for national banks have a chance, he insisted. A matter of vastly more importance than the question of home city branch banking, he said, was the preservation of the Federal Reserve System, and this depends upon the preservation of the national bank. (Mr. Nahm repeated his views on this question during the general debate, and these are reproduced elsewhere in this issue.)

The point that the national banks of the country would not be in the present dire dilemma if it had not been for the world war was made by Charles A. Hinsch, president of the Fifth-Third National Bank of Cincinnati, who stated that, at the time the amendment to the Federal Reserve Act was passed, which would permit state banks to join the system, with the right to withdraw any time on giving six months' notice, and carrying all the rights and privileges enjoyed under their state charters, the national banks realized that this was unfair to them but, on account of the war-time need of mobilizing the reserves of the country, they did not object. Now, he said, all that the national banks were asking was to be given the relief to which they are entitled. (Mr. Hinsch addressed the special session, and his views are printed in full elsewhere.)

A vote was taken on the Bailey substitute for the resolution presented by Mr. McKee. It was defeated, 41 voting for it and 152 against it.

The Division adopted the McKee resolution by a vote of 159 to 35. Mr. Hinsch moved that the vote be made unanimous, and this was formally approved.

Before adjournment, the newly elected officers were installed and a silver service was presented to the retiring president by the national bankers.

"This is the only time I ever believed in free silver," Mr. Wilkinson remarked, in expressing his appreciation of the handsome gift.

Novel Way of Welcoming A. B. A.

A HUGE dollar symbol formed by the undergraduates of the University of Southern California at the double-header football game on the Saturday afternoon following the close of the 52nd annual convention was the novel and appropriate sign of welcome accorded the members of the American Bankers Association when they attended the intercollegiate football contest.

Several hundred students participated in the formation, which was striking to see. The symbol of the dollar was formed by the undergraduates, seated near the center of the stadium on the Southern California side of the Coliseum.

This was only one of the novel ways in which the Angelenos demonstrated their warm welcome for the visiting delegates, who came from every state of the United States and several foreign countries.



A symbolic welcome to visiting bankers in Los Angeles

Unfetter the National Banks!

By W. C. WILKINSON
President, National Bank Division

Broader Powers Are Necessary If National Banking System Is to Continue to Hold Its Envious Position. Growth Has Not Kept Pace With That of State Banks. Early Action by Congress Vital to Protect Federal Reserve System From Weakening.

OUR privilege, our duty and our purpose are to give serious thought to the discussion of methods by which improvements in banking practices and bank services may be effected. Whether they are incident to the business of one class of banks or another, they are a part of the general work in which we are engaged and should have our support. However, we are concerned primarily with the national banking system, for it marks the limitations placed upon the institutions we represent, and it is the standard by which must be measured the broader powers which we feel must be extended if that system is to continue to hold the enviable position it occupies and which it has maintained so long in the realm of American finance.

As guardians of the funds of the clients of our banks, our duties are manifold. We are charged indirectly with the responsibility of preserving the national banking system and with keeping it in a state of efficiency capable of meeting whatever demands are made upon it. Obviously we cannot write the laws enacted for the government of our banks. Neither can we draw the regulations issued for the guidance thereof. However, upon our use of the instrumentalities given into our care depends the future of the system. If, with the facilities afforded, we can and do give to the public the complete banking service it desires, and to which it is entitled, the efficiency of the system is proved. But if our employment of all the powers conferred by the National Bank Act fails to produce fully satisfactory results, the necessity for a grant of more liberal authority is established.

Not Keeping Pace

WHETHER broader powers are necessary to enable national banks to render to their communities a full measure of banking service may perhaps be judged most accurately by a few comparisons. National banks are conducted today with an efficiency and an exactness never before equaled. The loyalty of the banking public, in so far as its requirements can be satisfied, was never more gratifying, and the resources of the system reached a new high mark within the last year. However, in the last decade, during which time the evolution in banking, the same as in practically every other line of business, carried it into heights not known theretofore, the growth of national banks has not kept pace with that of banks operating under authority from the several states. In 1923 there were 8214 national

banks, while the report of June 30, 1926, showed the number to be 7978. When an agency possessing the qualities of leadership, and holding its full measure of public confidence, does not maintain its ratio of advance, the retarding influence must be searched out and removed. The National Bank Division has pursued that search. It has found the cause. It has devoted itself diligently to its elimination, though without a full measure of success.

No discussion of the national banking system or of any other system of banking can be complete without a consideration of its relation to the Federal Reserve system. Whatever partisanship men may disclose in speaking of banking, all of them are agreed upon one thing. They recognize in the Reserve system a coordinating agency without which our modern complex of business would relapse into chaos. Without it the extremes to which business and social disorganization might drift are incalculable. Memory holds before us a vivid picture of the tremendous burdens the Reserve system was called upon to assume from the very day of its organization. And no less permanently imprinted upon our minds is the recollection of the thorough manner in which the system met every demand made upon it. It preserved the integrity of our own country and exerted a stabilizing influence over every other one. Its success under most trying circumstances demonstrated its complete mastery over conditions from which disastrous business disorders resulted formerly, and it put to flight the fear of their recurrence.

We must have faith in the system which prevented a complete financial collapse during the disastrous period of readjustment after the close of the World War. Likewise we must be militant in our defense of that system, and, more important still, we must be alert to guard against the creeping in of any form of decay which, by reason of its possible obscurity, is the more dangerous. Any force which tends to an impairment of the Federal Reserve system is a serious menace to the stability of our government.

Reserve System Threatened

THAT system was made to rest primarily upon the national banks. They are the nucleus around which was erected that superstructure of finance. They, almost 8000 in number, are compulsory members and furnish 84 per cent of the total membership. Also, with more than \$25,000,000,000 of resources, they supply 62 per cent

of the total strength of the Reserve system. To the earlier statement, that any force which tends to impair that system is a serious menace to the stability of our government, may be added this further one: Any force which tends to impair the national banking system is a challenge to the continuation of the Federal Reserve system.

Having before us a realization of the value of the Reserve system, which is approved universally in principle, and recognizing the faltering stride of its essential pillar, our duty is clear. We are called upon to strive to unfetter the national banking system, so it may again resume its forward march in the precise step with the responsibilities resting upon it. This the National Bank Division has sought to do. It has worked energetically for the achievement of that goal, which is equality of opportunity for its members.

Liberality Is Needed

ATTAINMENT of that end must necessarily come through the adoption of liberalizing amendments to the National Bank Act. A number of them were proposed, and they present an instant appeal to any student of banking. Among them is a provision for a more suitable method of effecting consolidations of banks. Another one would grant indeterminate charters, which are looked upon as very desirable. This would be accomplished without lessening in any degree the many safeguards thrown about national bank operation. Safe deposit business, which is performed to a greater or lesser extent by all banks, would be offered a different status. It could be incorporated as a separate institution in which national banks would be permitted to own stock. Loans on city real estate would be made more attractive. The limitations of the present law are a very serious handicap, against which a general disapproval has been voiced from every quarter.

Dealings in investment securities under regulations to be issued by the Comptroller of the Currency would be permitted. This, too, is thought very desirable when surrounded by proper safeguards. The charter of the Federal Reserve system would be extended. The first proposal was that it should be indeterminate, but later it was tentatively agreed that it should be for a definite number of years. The harshness of the law enacted in 1914, to curb what was referred to as the evil of interlocking directorates, would be mellowed somewhat by lodging with the Federal Reserve Board the authority to determine whether, in a given

case, the service of an individual with several different banks would be incompatible with the public interest. Also, this bill would stop the spread of branch banking within the Federal Reserve system.

A Question for Settlement

PRIOR to the time when the American Bankers Association gave its indorsement to these proposals, which were embodied in one bill before Congress, the National Bank Division struggled alone to secure their enactment into law. Its insistence and its efforts have not relaxed, though during the last two years it has proceeded under the leadership of the parent body.

Congress has already shown unmistakably its belief in the necessity of enacting this legislation. It was passed by the House and also by the Senate, though with some variations in form. Later it was given to a conference committee composed of members of each branch of Congress, and they were instructed to harmonize the differences found in the bills as passed by their respective bodies. After numerous meetings they were able to report a complete agreement in every section of the bill except the one dealing with branch banking, and even on that one there was almost entire accord. So it is not necessary to discuss those features of the bill which at present are not in controversy, though until such time as the conference committee submits its final report it has the power to reconsider any sections and change them as it will.

We are deeply concerned, however, with the branch banks feature of this bill. The failure of Congress in its last session to agree on them prevented the enactment of all the other important amendments which the legislators themselves, the members of this Association and the public have approved. Also, branch banking in itself presents a problem so important as to demand definite solution. It has been truthfully said: "No question is ever settled until it is settled right," and we must be certain that the settlement of this question, which we hope is not far off, will be equitable and permanent.

The conference committee of Congress has agreed upon provisions which will mark the limitations upon branch banking among state members of the Reserve system. They are that they shall be permitted to retain such branches as they may have in operation, in conformity with the state law, at the date of the approval of this act, and they must relinquish any branch or branches established after the date of the approval of this act beyond the limits of the city, town or village in which the parent bank is situated.

This is clear and simple enough. It prevents the future spread of branch banking outside of the cities in which the parent offices are located. It means that in states which now or hereafter may permit branch banking, state bank members of the Reserve system will not be permitted to establish branches outside of the cities, or to operate branches so established after the approval of this act.

Also, the conference committee of Congress has reached complete agreement in re-

spect to branches of national banks as follows: They may retain branches lawfully in operation at the date of the approval of this act.

National banks absorbing state banks or consolidating with other national banks may retain and operate such branches, if any, as were in lawful operation at the date of the approval of this act.

They may establish and operate new branches within the limits of the city, town or village in which such associations are situated, in such states as permit branch banking, as follows:

One branch in cities with population of more than 25,000. Two branches in cities with population of more than 50,000. The Comptroller of the Currency to determine the number of branches in cities with population in excess of 100,000.

Point of Difference

THE House conferees, however, insisted that new branches of national banks shall be confined to such states as permit branch banking at the date of the approval of this act, while the Senate conferees contended that national banks shall be permitted to establish branches within the cities in which the parent banks are located in states which permit state banks to establish branches now or at any future time. The language urged by the House conferees is what is known as the Hull amendment. The Senate conferees refused to accept it, and vowed they never will do so.

This one point, the only one not agreed upon in conference, relates to national banks alone. It has absolutely nothing to do with the number of branches in a given city. The Hull amendment does not stop the spread of branch banking outside of the cities in which the head offices are located, for the establishment of branches outside of the cities is prevented by another clause of the bill. It means simply that if any state should enact laws hereafter permitting branch banking, national banks would not be allowed to establish branches in that state, even in the limited numbers specified above, though state banks would be privileged to set up branches in direct competition with national banks.

The National Bank Division, notwithstanding the handicap which the Hull amendment would place upon national banks, has exerted all of its efforts for the passage of the House bill carrying that amendment. The American Bankers Association has approved it, and the National Bank Division has stood squarely upon the indorsement of the parent body, but it is pitiful to see this important McFadden bill invite almost certain failure again because of the inclusion of that amendment. There are many desirable, necessary and uncontested features in the bill, and in my judgment, and in the judgment of the other officers of the division, its enactment would seem almost certain if the American Bankers Association would withdraw its insistence upon the Hull amendment. The passage of the bill would at once settle the branch banking problem and confine to the home cities all branches which might be established hereafter by members of the Federal Reserve System. I personally strongly urge the enactment

of the bill without the Hull amendment upon which the Conference Committee did not agree, for, after all, that amendment attempts not a thing in the world other than to deny even limited branch privileges to national banks in states which may hereafter enact laws permitting state banks to establish branches.

Position Is Equitable

THE position of the Senate conferees, which is exactly the same as that of the House conferees except that it omits the Hull amendment, recognizes the right of a state to say whether or not it will permit branch banking within its borders. It means that if that right should be extended to state banks in any given state hereafter, it would be granted to national banks also. If any state now permitting branch banking should amend its laws so as to deny future branches, that amendment would apply to national banks as well as state. So, in the name of equality of opportunity, which is the purpose of this bill, why should not future laws permitting branch banking apply to both classes of banks? I repeat that I am anxious for the enactment of the McFadden bill, and I cannot follow the reasoning of anyone who would work for the defeat of the measure rather than see it become law carrying a provision giving both classes of banks somewhat similar branch privileges in all states.

This is a very pressing situation. If national banks are to be granted the broader powers which they require to carry a full measure of banking services to their communities, we must urge the convention of the American Bankers Association to support the enactment of this measure with the Hull amendment eliminated.

McNary-Haugen Bill Not Suited to Cotton

"THE opinion has been expressed that the low price of cotton will win the support of the South to the McNary-Haugen plan of government aid, but the latter would be more impracticable as applied to cotton than to any other product, from the fact that one-half or more of the cotton crop is exported. The McNary-Haugen idea is to dump the surplus abroad, advance the price at home by the aid of a tariff on imports, and assess the difference between the foreign price and the home price upon all producers, but there is no tariff on imports of cotton, and the proportion of the crop sold abroad is so large that the benefits of the plan to the cotton growers would be more than offset by the higher prices of food and feed which the cotton growers buy. The cotton growers have no common interest with the corn growers or wheat growers in that proposition.

"The cotton situation is a clear case of an unbalanced relationship between supply and demand, just as the corn situation has been during the past year. The only practical remedy in either case is in bringing the situation back into balance. Nobody can do that but the producers, and low prices supply the motive for doing it."—*National City Bank of New York.*

Bond Departments and Investments

By P. D. HOUSTON

President, American National Bank, Nashville, Tennessee

Risks Run by the Bond Dealer Are Greater Than Are Supposed. Bank Should Be Able to Run Bond Department Without Loss. Advantages in Separately Organized Securities Company. Bond End of Bank Can Be of Great Help to Other Departments.

THE bond business as it existed before the World War was conceded to be very aristocratic; it was conducted by a few very old, very conservative houses, which sold the fixed obligations of their inherited clients to individual or institutional customers in blocks of \$25,000 and up. That was a time in the history of this country when there was neither so much cash wealth nor so wide a distribution of it as followed upon the tremendous stimulus which war-time necessities gave both individual and national resources.

Such banks as had bond departments during that period were the largest banks in the largest cities, and such departments were really little more than service or statistical departments which had come into being in most cases from two causes, either to aid in the distribution of the securities of companies in connection with which the bank had some interest or responsibility, or to supply the demand of commercial customers for advice on investments; probably both causes had a good deal to do with it. These bond departments rarely or never participated in what we know today as underwritings. They maintained, in general, only such a list of bonds as would be likely to meet the needs of the bank for secondary reserve, and when it came to filling orders for customers they, as a rule, bought bonds at a concession of $\frac{1}{8}$ or $\frac{1}{4}$ of 1 per cent from the lists of the large houses of issue.

Bond Buying Habit

WHAT happened to the bond business during the years immediately following the outbreak of the Great War is, of course, well known. The bond business was suddenly called upon to finance a large part of the requirements of the nations at war, even before the United States went into the war. The \$500,000,000 Anglo-French Loan, next the flood of American securities theretofore held in England, and later the deluge of Liberty Loan Bonds, placed upon the investment banking fraternity and the banks a burden which could be met in only one way, by the education of the great mass of American people in the habit of buying bonds in small quantities. This was necessary owing to the fact that capitalists were largely occupied in war production, which used up their investment capital, or were withdrawing their funds by placing money in tax-free municipals on account of high

war taxes, thus effectively removing the usual sources of bond buying from the corporate investment market.

It has been said that the Liberty Loan Bond campaigns raised the number of bond holders in this country from 500,000 to 20,000,000. The result was an immediate expansion in the bond business shown in several ways: first, by the initiation of an elaborate system of distribution on the part of the large houses of issue, which began giving out underwriting participations in amounts as small as \$10,000 to bond dealers; second, the gradual increase in the number of bond departments in banks of moderate size which were literally forced into the bond business by the sudden growth of interest in investments as well as what seemed to be opportunities for profit in selling bonds; and third, by the creation of hundreds of small firms or investment dealers largely composed of men who had received their early training in the older bond houses. These factors soon brought about a decrease in the average sale to a customer from \$25,000 to \$3,000, thus broadening the bond market tremendously.

Immediately after this development came the "Inventory Panic" of 1919-1921, and an exaggerated demand for fixed capital on the part of over-expanded industry and over-taxed government budgets. This was the result of the so-called "frozen assets" with which all bankers were only too familiar at the time. Various industries had increased the size of their plants for war-time requirements, and in many cases had just finished such expansion when the war ended and business demand fell off, or, at any rate, only lasted for about 18 months, and finally ended in a tie-up of transportation and an over-supply of finished goods which the consuming power of the country was unable to absorb at a profit. The bond business was then confronted with a large number of obligations secured on "Bricks and Mortar," by which means industry raised capital to absorb inventory losses and, in many cases, cash to enable the business to continue.

Increased Buying Power

THIS brings us down to the past five years, which have witnessed probably the largest growth in investment banking, a period during which the most noticeable fact has been that the increase in the number and buying power of private investors has

kept pace with the increased number of bond issues.

Now it is no light matter for the directors of a bank of moderate size to decide whether or not to establish a bond business. We must remember, in the first place, that, though it is a popular notion that the bond business is very safe, the opposite is more nearly true as far as those are concerned who are putting up the capital. Your stock broker, for instance, has a much safer game to play, as he depends solely on the commissions and interest differential on a large volume of trading. But the bond dealer must be prepared to take large long-time commitments, to subscribe and pay for a big block of bonds at any time, and run the risk of not being able to sell all of them, and of having their market value depreciate, and must even agree to the syndicate managers having the necessary extraordinary powers for the success of new issues, and agree on his own part to protect the market for sixty or ninety days, or even longer, with respect to the specific bonds for which he is liable in the syndicate.

Therefore the two most important questions about a new bond department are: "Who will run it?" and "How?"

Small Bank's Problem

THE small bank not in close communication with financial centers, and possibly not in a position where it might be able to control any great amount of local financing, is still faced with this problem, now that its customers are going to be educated through the mails on the subject of investment, whether or not their own bank does it. Obviously, no banker worthy of the name will wish to forego the opportunity and responsibility of serving his customers in the most complete way in all matters relating to banking. It is probable that the average bank will be able to operate a bond department at least without loss, and if this is so, the most important question, and I cannot emphasize it too strongly, is the necessity of obtaining the proper personnel. There is no aspect of a man's private life which he will ordinarily ask to be treated with more seriousness, more respect, and more secrecy than that which concerns his financial affairs. It is common knowledge that the officers and directors of a commercial bank, who have naturally neither the necessary time nor the experience, must de-

pend upon the manager of a bond department for the selection of the investments which will be offered to customers with the bank's name, reputation, and recommendation risked on each one. It is obvious, therefore, that such a manager must have unusual experience, integrity, analytical ability and initiative.

Owing to the peculiar marketing conditions in the bond business under which a bond department manager must decide in a few minutes, and on the strength of a telegram a few hundred words long, the merits of a new issue of bonds, and whether or not his bank should be let in for a commitment running from \$10,000 to \$200,000, it can easily be seen that he must have not only the qualifications, but also the power to act immediately, and that it is useless to organize either his functions or those of his subordinates on any other basis.

It has been my own observation that in general the affiliated and separately incorporated securities company organized in this way keeps all the advantages of a simple bond department, and has, besides, somewhat greater flexibility and freedom of action. This is particularly true, for example, in cases where it may be necessary in the process of raising fixed capital for a business to finance some equity which is not in such a form as can be offered to the public. In this situation the directors of a securities company, having been selected for the very qualities and resources which will aid the bond business, can be very useful in organizing a temporary group to carry such an equity, frequently at some considerable gain to their institution. This situation will usually arise where more money must be secured than can be safely raised by placing a mortgage on the property and where the junior financing must be in the form of a loan which would necessarily run for a longer time than a commercial bank would want to carry it. Recourse can be had either to a note issue to be retired serially or to a preferred stock issue on an attractive basis, which can, after the establishment or reestablishment of the company's credit, be sold to the public at a profit.

Maintain a Diversified List

HAVING selected the right personnel for directors, manager and staff, the question of selection of bonds is more than half solved. The real problem is to maintain at all times a list of bonds sufficiently diversified as to interest, rate, maturity, industry, geographical location, etc., so as to serve the double purpose of providing a liquid reserve for the bank and at the same time of satisfying the various demands of customers.

In order for a bond department to be able to liquidate inventory upon short notice if the needs of the parent institution should require it, it is not necessary to restrict any considerable proportion of the investment inventory to short-time bonds and notes. Diversification as indicated above is usually, and has proved in our case, a sufficient safeguard. We have found our affiliated company has the capacity to liquidate large portions of its inventory in cases where it has seemed either desirable or profitable to do so. You will readily see that this flexibility represents a type of serv-

ice which in itself is worth a great deal of trouble to acquire.

Sources of statistical information have kept up with the growth of the bond business so that it is not difficult to pass judgment upon bond issues. It is not so easy to accumulate and maintain a list which will sell at an operating profit. The first and best thing to do is to try to get on the syndicate list of some of the best houses of issue, and next to try to form a working agreement with the bond department of some large correspondent bank which can be expected to supply some bonds at a concession. After this the management will be on the lookout to pick up from time to time blocks of sound and seasoned bonds which look out of line with the market and may be expected to improve their position. There will be further opportunity in connection with local corporations, municipalities and counties, and every effort should be made to get a connection with other houses of similar size and character in the surrounding territory so as to permit bidding on industrial and municipal issues of larger sizes.

Build Up Confidence

ONE policy our own experience has indicated as invaluable is the giving of all possible information to the customers themselves. The most successful bond department is not necessarily the one which begins right away to sell bonds rapidly to a comparatively small number of obvious prospects who are probably more interested in the speculative than the investment features of the bonds they buy, but it is the house which succeeds in developing patiently a great number of people who place in it such confidence that their first thought on acquiring any spare cash is to go to the offices of the investment house and invest in a conservative bond according to the advice of the house. This confidence will be misplaced unless the house exercises a great care in the selection and recommendation of investments.

The public hardly realizes what a weight of responsibility it places upon bankers when asking them to invest money. All of our officers, entirely aside from those operating our affiliated company, are met daily with the request that they recommend or often actually invest sums of money for customers who have grown accustomed to absolute reliance upon our institution.

The problem then, if a bank wishes to deserve for its bond department the highest reputation, is to be sure that the business is conducted on the proper plane, which can be only the highest. This cannot be attained unless the bank organizes and maintains a personnel which understands the exercise of judgment and authority, conditions which will never be realized unless all from the manager down are efficiently trained. It would be suicide to send out to the public salesmen who are not sufficiently trained both in actual statistical information about the securities which they are offering and in the power to interpret that and other information so as to guide properly the investment policies of their customers. Money spent on well known and reliable statistical services will return very large dividends on the investment if full advantage is taken of the information thus acquired. This ad-

vantage can be pursued only when it is realized that the bond business is now really a profession, and that men of the highest type must be secured and allowed sufficient opportunity for themselves; it will rarely be possible in a small bank to operate efficiently a bond business in charge of a junior officer or to employ salesmen having no more opportunity than the junior officers of the bank.

Helping Other Departments

IT is my belief that in spite of the growth and competition, perhaps because of these factors, there is still a real opportunity for mutual advantage to both investors and banks in starting bond departments in communities the amount and character of whose wealth will justify it. It will also be found that the bond end of a bank can be of great value to other departments. Our own company, if you will pardon the reference, has through the rendering of good service to its customers brought to the commercial and trust departments of the American bank accounts which in all likelihood would have been otherwise inaccessible.

There are, of course, pitfalls to be avoided. It would be fatal, I believe, for any bond business to specialize on any one type of bond, either real estate, municipal or what not, as the only guarantee of a stable business is in the ability to sell some classes of bonds at all times. Two very frequent statements which will be heard are: "If these X, Y and Z 5's are so good, why haven't you sold them all?" and "You're just trying to sell me these bonds because you have some of them on hand." So you will readily see that in order to satisfy the modern bond buyer it will be necessary for your bond department to exercise more than ordinary discretion, oftentimes to neglect all the bonds on hand and go out into the market to buy bonds without profit in order to give a customer the bonds he ought to have and, in general, to display the foresight demanded by the risks inherent in any business which sells merchandise subject to the whims of the customers and its market.

Nevertheless, I believe that, properly started and carried on, the bond department of a bank should be a source not only of financial reward, but also of the priceless prestige which comes to an institution as a result of a constant effort to make the practice of thrift more attractive and to give intelligent advice to the impulsive American public, which needs it badly. And, not least important, a bond department ought to develop among the personnel of the banks a corps of men who, if they conscientiously follow the principles of the profession of bond selling, will provide an ever-increasing number of valuable leaders in finance and in business.

States Reduce Debt

DURING 1925 the debt of twenty-six states was reduced, the reduction ranging from \$3,000 to \$1,850,000. But twenty-one states increased their indebtedness.

The net change in the debt for the forty-eight states for 1925 as compared with 1924 was an increase of \$118,683,000. One-third of the entire increase was made in New York, New Jersey and Pennsylvania.

A Banker's Relations with Clients

By W. W. WOODSON
President, First National Bank, Waco, Texas

Through Its Loan Facilities, the Banker Has an Opportunity of Choosing His Clients. Thorough Understanding with Commercial Borrowers as to Probable Needs Necessary to Create Satisfaction. Credit Files and Audited Statements Will Cut Down Losses.

BANK clients may be divided into two classes: Desirable and undesirable.

A bank has individuality—has personality—has character. Its character is determined largely by the character of its clients, just as a lawyer or physician is judged by his clients. In other words, the bank, like the individual, is known by the company it keeps. I believe the banking business should be regarded as a profession and conducted on such a high moral basis, with the reputation for such good, clean assets that the undesirable element will seek some other institution with which to do business.

Through its loan facilities the banker has an opportunity of choosing his clients. He may be offered a profitable loan, well secured. That it not the question. Determine first whether the customer will make a desirable client. To make a desirable client, the customer must be a person of good character, good ability and successful. It makes no difference whether the client is young or old, rich or poor, he is a desirable customer if he meets these requirements.

Troublesome Undesirables

THE time of some bankers is entirely taken up in dealing with second rate, unsuccessful clients, who have little or no financial or moral standing in the community, whose slow notes, with all kinds of second rate collateral from life insurance notes to installment notes on second hand furniture and automobiles, fill the banker's note case and give the bank a ragged appearance to the bank examiner and a nightmare to the note teller. It is a discredit to a bank for some men in its community to do business with it, although they can furnish government bonds as security.

Surround the bank with men of character, successful men, and they will draw others who will give character and prestige to the bank.

The desirable clients are those who maintain good balances without interest, render excellent statements showing proper ratios, make satisfactory earnings, part of which is retained in the business, whose demands on the bank are reasonable and legitimate, retire loans periodically and who are regarded as honest and capable. Any bank appreciates such a client and any bank will do all in its power to maintain a satisfactory relationship with such a client. It is not so much the facilities it has to offer, for every bank can offer a client the same facilities, but it is the manner in which the

services are rendered that ties him to the bank. There must be a warm, friendly feeling of confidence in each other before the best relationship exists.

Relationship Must Be Profitable

IF the relationship with the client is to be satisfactory it must be profitable to the bank. Banking service is very costly and yet 50 per cent of bank clients are free boarders.

Years ago when prices were extremely low compared with today, a man who went to a hotel and paid four dollars a day for a room had all the accessories thrown in. Today he is charged for all of these additional services. From the time one enters the hotel until he leaves, every telephone call, every bell-hop that puts his head in the door costs him extra in the way of tips. People no longer expect free service from any institutions except the banks. We have advertised to the public for the past twenty-five years to use the check in paying their bills instead of using money, and now every man, woman and child who owes five dollars brings the five dollars to the bank and deposits it, and goes out and gives checks.

We have suddenly awakened to the fact that banking service costs money and we are learning why we are not earning greater profits. In analyzing our accounts we have found that 50 per cent of the accounts on our books carry an average of \$50 per account. This percentage holds good with all the banks in our city and I am sure it holds good throughout the country. I talked to the president of a bank in a city of 60,000 population a few weeks ago and asked him what he was doing with his unprofitable accounts. He pulled out of his desk a statement just taken from his books and gave me the following figures:

Total commercial deposits.....	\$5,000,000
Total commercial accounts.....	8,100
Total accounts under \$75, averaging \$50	5,037

Out of 8,100 accounts, 5,037 represented deposits of \$250,000 and 3,000 represented deposits of \$4,750,000. These unprofitable accounts he figured cost him \$5 each, or \$25,000 per year. I think he figured the cost low at that. He could lose 60 per cent of his accounts and it would mean a loss of only \$250,000 in deposits.

No good depositor expects his bank to lose money on his account. He does not expect free service at an expense to the bank. His account should be placed on a satisfactory basis just as a banker would require the client who keeps \$25,000 on de-

posit to increase his deposit if the balance was not sufficient to cover the cost of the service to him. We have never imposed the service charge in our city, although that appears to be the popular solution at the present time, and the results obtained thus far seem to be satisfactory. More than sixty clearing house cities have adopted the service charge.

In view of the fact that we have advertised extensively the use of the check in paying bills, encouraging small deposits, would it not be a wise plan to carry on a campaign throughout the country, presenting in a dignified, courteous, yet forceful manner the cost of the service the bank renders its customers and the minimum balance necessary to meet actual cost?

It is much better to use every effort to encourage depositors to increase their deposits to meet the bank's requirements rather than drive them away from the bank as undesirable.

There is another class of clients who are undesirable because they do not want the bank to make any money out of their accounts. They want all the service they can get from the bank for the least money. They are continually kicking at interest rates, objecting to exchange charges, wanting box rent free, and asking the bank to render various and sundry personal services without offering to pay.

Then, too, there are a few unsatisfactory clients who are borrowers rather than depositors.

The Most Undesirable Loan

THE most undesirable loans in the United States today are agricultural loans in the nature of crop mortgages. Twenty-five years ago, when farming costs were low, the farmer lived on the farm, his family worked, he lived economically and borrowed from \$2 to \$4 per acre from the bank on his crop mortgage. If the crop was short, the banker did not have much to carry over. Today the cost of everything has about doubled, and the farmer owns an auto and spends much of his time in town, and it requires \$8 to \$12 per acre, and when the crop is short he is hopelessly in debt and goes in deeper trying to get out.

The crop mortgage is no longer adequate or desirable security. The large number of bank failures in the agricultural section is attributed to losses by banks on agricultural loans. The banker who persists in taking crop mortgages as the only security will sooner or later get into trouble. It is the landlord's duty to see the farm worked

and not the banker. Whenever the banker requires of the tenant farmer prime indorsers or other good security, he will borrow 50 per cent less, and the bank will have less loans and a good deal better feeling when crops fail and collections are bad. When the landlord furnishes the money he superintends the spending of the money, which is an advantage to the farmer and the banker.

Although the government has created additional credit facilities for the farmer, it has never been willing to assume the risks the banker does in trying to help him. Of course, when Congress meets and McNary or Haugen secures the passage of a bill guaranteeing the farmer the costs of producing his crops, the banker may feel safe on mortgages. Certainly the farmer has the load to carry, and we are hoping that conditions will change for his good.

No banker should have his money tied up in loans to the extent that a crop failure would cripple the bank. After all the financing of the tenant farmer is the landlord's obligation and not the banker's.

The Bank Correspondents

I SUPPOSE all reserve city bankers have some bank correspondents with whom the relationship is not altogether satisfactory. There are three kinds of banks: good, bad and indifferent. Good banks, of course, are the ones whose statements reflect a liquid condition, carrying a strong surplus, never borrowing except for seasonal requirements, and in small amounts, regarded as well officered with strong boards of directors.

Bad banks are those flirting with the undertaker, and should be left alone.

The indifferent correspondent is the undesirable one. The management is neither good nor bad. The bank has become overextended. It makes no strong effort to liquidate and does not maintain balances commensurate with its borrowings. Its earnings have been paid in dividends instead of increasing the surplus when the bank needed the funds. The officers are honest, but not capable.

The question is what the bank should do with this situation when it is asked for a loan. The bank has probably been on the books for twenty-five years, and the reserve city bank feels very friendly toward it, and only in the past year or so has it gotten into such a condition. Before extending it any loans I make it a rule to visit the bank and ask permission to see the bank examiner's report and to make a special examination myself. I sometimes call in the directors and go over the paper with them, to ascertain the character and goodness of the paper. I have never had a banker refuse me permission to make such an examination.

In some cases it resulted in closing the bank. In other cases it resulted in my securing from the stockholders additional capital, and in other cases I have been able to help finance the bank through its trouble because it was solvent and I had confidence in the management. In such cases it enabled me to work with the management and the directors in establishing a different policy that would result in placing the bank on a sound foundation. Real constructive help

can be rendered to correspondents when they are willing to supply all information wanted regarding their institution. In dealing with banks which are members of the Federal Reserve System, where they borrow money from both of us, I maintain that I am entitled to the same credit information that has been furnished the Federal Reserve Bank. I do not think it is entitled to any advantage as to security over my bank when it comes to extending loans. The Reserve Bank has copies of the examiner's reports and makes its own special examinations. Unless the correspondent can place his account on a satisfactory basis, of course the account will have to be closed.

The Commercial Borrowers

THE majority of our clients are commercial, dealing in some form of commerce. To create a satisfactory relation, it is necessary for the banker to have a thorough understanding with his client as to his probable needs. This requires an analysis of his financial statement and an investigation of his ability and experience and the prospects for success. A well-managed bank will keep its credit files up to date, securing a credit statement from every borrower of any consequence.

In securing statements this year, we wrote letters to all borrowers who owed us as much as \$1,000, asking them to furnish us statements if they had not already done so. One of the merchants who owed us \$2,000, whom we had always regarded as perfectly good, made a statement upon which we would not have loaned the money had we seen the statement at first. It enabled us to make suggestions, and he is now reducing his expenses and placing his business on an earning basis.

Customers who are constant borrowers should present audited statements. We had a customer who had been borrowing from us for twenty-five years and occasionally paying up. His statement showed receivables out of proportion to his inventory and capital. I asked for an audited statement. He demurred, stating that he had one of the best bookkeepers in the country, who was a good auditor. I had such a high regard for the character and integrity of the owner and manager that I did not insist. A short time afterward he died, and his business went into the hands of trustees for the benefit of creditors. His statement showed that he had padded the inventory over 100 per cent, and 80 per cent of his receivables were uncollectable, consisting principally of his own notes. It is becoming more and more necessary to have audited statements by auditors of known responsibility.

Statements are usually made by a customer at a time when he can make the best showing. Sometimes he has done a great deal of window dressing to make a creditable statement. I remember a client who was in the wholesale business who used to come to the bank a few days before the annual audit and borrow a large sum of money on his own name and purchase from the business a like amount of their bills receivables, probably their most undesirable notes, thereby strengthening the statement. After the audit he would sell the receivables back to the company for cash and pay his personal note. The auditors, a strong, reli-

able firm, never did show this transaction in their reports, although they were bound to have noticed such a large change in assets just previous to their audit.

What Audit Should Show

THERE is and should be an increasing demand on the part of bankers for additional information from the auditors. Bankers should be interested in the statement when the client has reached his peak in inventory, borrowings, receivables, etc., as the banker will be called on to carry the load in the event of crop failures or other disasters that prevent liquidation.

An auditor's statement should contain the following information for credit purposes:

Amount of inventory at lowest and highest point.

Amount of accounts and bills receivable at lowest and highest point.

Amount of notes and accounts past due 30-60-90 days, 6 months and over 12 months.

Liability of officers and stockholders to company.

Amount of borrowings at lowest and highest point.

Total sales turnover for the year.

Total net earnings and disposition.

Total notes sold without recourse.

And such other data as will be helpful to the banker in passing upon the credit risk.

I think all responsible auditors are willing to cooperate with the bankers in furnishing additional data. If the American Bankers Association should prepare a standard form to be used by the auditors, to be incorporated in their certificates or attached to the statements, the majority of the institutions will be glad to furnish the information, and the others will soon follow. When it becomes known that the bankers have demanded such a report and the auditors insist on making it, I feel quite sure that the clients will yield to such a request. It will be a reflection on the ones who refuse to grant such a reasonable request.

The Robert Morris Associates are doing a splendid work in helping to standardize credit statements. They take a hundred or more statements rendered by a certain line of business, and from the aggregate of those statements they make what constitutes an average statement, and this is regarded as the normal statement for that particular business. In other words, they secure, say, two hundred statements from a wholesale grocery house which is selling its paper in the open market. They add the capital of the two hundred statements together and divide the sum total by two hundred and get the average capital for this business, and, following this method, they get the average inventory, average earnings, average receivables, etc. Now this normal statement is a measuring stick to measure customers by. The banker can tell whether they are below or above normal, and if they are below normal he can encourage them to build up to a normal basis.

Outside of the statement, it is necessary to consider the economic situation regarding the particular business and the capability of the management in order to arrive at the desirability of the client's account. From the economic standpoint one must consider the location of the business, the per-

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Savings Bank Division

Exemption from Federal Taxation of Interest on Savings Bank Deposits Up to \$300 Will Be Sought. Further Safeguards for Real Estate Mortgage Bonds and Loans Planned. Three Regional Conferences Scheduled for Year. W. R. Morehouse, President.

TO "remove the unjust discrimination existing against savings depositors in banks," the Savings Bank Division of the American Bankers Association at the Los Angeles convention, decided to make an appeal to Congress to grant to savings depositors in banks the same exemption from Federal income tax that is now enjoyed by stockholders and depositors in building and loan associations. If Congress should act favorably on this appeal for equitable treatment, savings depositors would be entitled to consider up to \$300 received in interest on savings accounts as exempt from Federal taxation.

To throw further safeguards around real estate mortgage bonds and loans the Division adopted two other resolutions. The first was: "We believe that the real estate mortgage, when properly amortized, should constitute a larger proportion of investment of savings deposits," while the other declared: "Where real estate mortgages are made the basis of bond issue, the serial amortization of principal should be promptly liquidated at maturity and canceled of record, in order to maintain and preserve the equity of the bondholder."

Should the declarations be put into practical effect, it is anticipated that the savings banks would render even greater assistance to the building of homes in their respective communities and real estate mortgage bonds would become more desirable investments.

A Departure in Programs

THE annual program of the Savings Bank Division was a departure from the custom of other years. Thomas F. Wallace, treasurer of the Farmers and Mechanics' Savings Bank of Minneapolis and President of the Division, said that, rather than review the activities of the past year, he preferred to stress the necessity of savings banks adopting new measures for the changing financial needs of the day. He commended the segregation of savings deposits as is practiced by state banks in California and Washington to give better protection to the savings depositor, urged that provision be made in banks for advising depositors as to safe investments, favored the adoption of more courteous methods to

win good-will, and expressed the hope that some means might be developed whereby the savings of people in all parts of the world might be safe from shrinkage through the depreciation of currencies, such as has been witnessed in many countries since the World War.

With the idea of dramatizing the potent force of the school savings plan as a medium for the education of the American

built stage and represented the combined efforts of 500 boys and girls in the Los Angeles schools under the direction of Avery Gray, the supervisor of school savings in the California city.

Emphasizing the need for the savings banker to "wake up" if he is to keep up with the forward procession of banking progress, B. C. Forbes, editor of *Forbes' Magazine*, related "a dream" in which he described what a progressive savings banker had done to serve the people in his community. In this reverie, the speaker recounted how the banker had equipped his bank to give advice on home economics, investments, life insurance, home building and other subjects, and revealed how he had made his institution a part of the life of the neighborhood and city.

Speaking Contest a Feature

A CONTEST between the four best public speakers among the 2500 members of the American Institute of Banking chapter at Los Angeles was the concluding feature of the meeting. Introduced by W. R. Morehouse, vice-president of the Security Trust & Savings Bank of Los Angeles and the new president of the Savings Bank Division, the four men—W. Murray Aitken, Paul S. Kent, Howard W. Runkle and Gordon Stephens—spoke on "The Value of a Savings Account." Limited to five minutes time, the speakers without exception stressed the value of the account to the individual and the community.

The judges, Rudolph Hecht, president of the Hibernia Trust & Savings Bank of New Orleans, Paul Pflueger of the Humboldt Bank, San Francisco, and Elwood Lloyd, financial editor of the Los Angeles *Herald*, awarded the first prize to Mr. Runkle, whose winning address is printed elsewhere in this issue.

"A savings account is of value not only to the individual, but through the individual to the community as well," Mr. Aitken said. "The individual, through the medium of a savings account, is offered benefits which, since the beginning of time, have been searched for by rich and poor alike. Among these benefits are a secure place in which to keep surplus funds, and an investment which pays a reasonable return in the form of interest. By such investment, through contact



W. R. MOREHOUSE
President Savings Bank Division

youth in thrift and as a means of creating in the minds of the coming generation good-will toward banks and bankers, a prominent place was given on the program to a pageant of school savings as presented by the faculty and student body of the Thomas A. Edison Junior High School of Los Angeles.

"A Thrift Project" was the title of the pageant which told the story, in allegorical form, of the wisdom in cultivating the savings habit and setting aside a part of all earnings for the needs of coming days. The thrift project was presented on a specially

with banking officials, credit is established and the worth-while position in the community is assured, because the savings depositor is making of himself a self-supporting member of society. Furthermore, a savings account provides an incentive to save, which, if not neglected, will set up a sinking fund for the retirement of future obligation and for the insurance of future financial independence, an independence which forestalls that penalty of contempt by self and friends.

"The rewards from savings cannot be overestimated. The growth of the savings account promotes the growth of the savings habit. That habit gives peace and happiness and is founded upon financial security.

"The value of a savings account to the community lies chiefly in the added financial strength which that community acquires through the cooperation of savings depositors with their bankers for mutual profit and advancement."

The man of moderate income is by a large majority the principal investor in the savings account, Mr. Kent pointed out, and it is best suited to his needs because of its values of safety, immediate return and the development of the thrift habit.

First Requisite Is Safety

"**B**ECAUSE of the nature of this depositor's resources, his first requisite is safety," Mr. Kent said. "It is what he must have above all else. By investing in the savings account, he draws upon the investment experience and judgment gained by bank officials in a lifetime devoted to this work. This investor's income being moderate, the time required for the accumula-

tion of a sum effective for investment would mean a loss of revenue were it not possible for him to deposit as small a sum as \$1 and start an immediate return accruing to him.

"Much has been preached and written about thrift, and all of the authorities agree that the possession of the thrift habit or the lack of it spells success or failure in the effort to an improvement, progress and independence."

"A savings account is the ideal form of investment from the personal point of view," Mr. Stephens pointed out, "because it is safe, for it is not subject to fire or theft and is secured by the investments of a trained expert closely guarded by law; because it is simple, for it requires no special knowledge, and because it is elastic, flexible for it can be expanded or contracted at your will.

"It is a wise investment from a broader point of view because it provides a means for the upbuilding of the industries and the construction of our homes, so essential to the welfare of our own community. Save, yes, but save and invest wisely in a savings account."

Announcement was made during the session that three, or possibly four, regional conferences on savings would be held during the next year. The savings bankers in the western states will meet at Oakland, Cal., while the central western bankers will convene a regional conference at St. Louis, Mo., and the eastern states will participate in a meeting at Washington, D. C. It is possible that a fourth will be held in the South. As yet the dates have not been fixed for the conferences, which will be held under the auspices of the Savings Bank Division.

New Officers Chosen

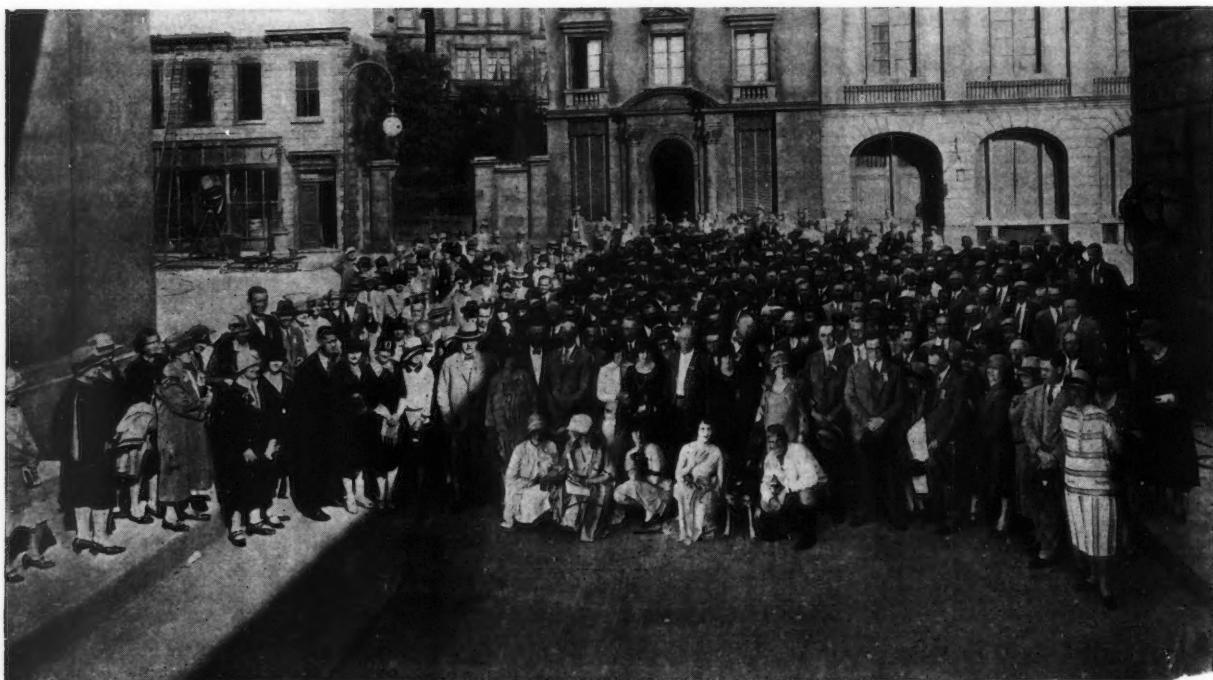
FOLLOWING the report of the Committee on Nominations, appointed by President Wallace and composed of Alvin P. Howard, vice-president of the Hibernia Trust & Savings Bank of New Orleans; Rome C. Stephenson, vice-president, St. Joseph Loan & Trust Company of South Bend, Ind., and Paul A. Pflueger, vice-president, Humboldt Bank of San Francisco, the following officers were elected by the Division to serve during 1926-27:

President, W. R. Morehouse, vice-president, Security Trust & Savings Bank, Los Angeles; Vice-President, George L. Woodward, treasurer, Southern Norwalk Savings Bank, Norwalk, Conn.

Members Executive Committee, Howard Moran, vice-president, American Security & Trust Co., Washington, D. C.; Austin McLanahan, president, Savings Bank of Baltimore, Baltimore, Md.; A. C. Robinson, president, Peoples Savings & Trust Co., Pittsburgh, Pa.; R. C. Van Denberg, vice-president, Savings Bank of Utica, Utica, N. Y.

The Resolutions Committee was composed of W. R. Morehouse, Charles H. Deppe, vice-president, Union Trust Company, Cincinnati, and George L. Woodward.

Upon inducting Mr. Morehouse into the presidency, the retiring president spoke of the service that Mr. Morehouse had performed in the past and predicted that his administration would be "one of the most notable of the Savings Bank Divisions." The incoming president said it would be the earnest purpose of the officers of the Division "to do our best to help safeguard the billions of savings, and to encourage thrift and industry wherever we can."



At the Warner Brothers studios, five stars with Rin Tin Tin, pose for a photograph with the bankers

Keystone Photo Service

New Measures for New Times

By THOMAS F. WALLACE
Retiring President, Savings Bank Division

Segregation of Savings Deposits, Adapting the Savings Bank to the Customer's Changing Needs, Giving Sound Advice on Investments, More Courtesy Toward Depositors and Finding Means of Preventing Depreciation in Currencies Suggested.

AND no man putteth new wine into old bottles; else the new wine will burst the bottles, and be spilled, and the bottles shall perish. But new wine must be put into new bottles; and both are preserved."

The leadership of the world in politics, in education, in economics, and in finance will soon pass, if it has not already done so, to a generation who know only the world of the Great War and after.

To many it seems that the problems to be solved are of an entirely new order, but in reality they are the problems of the centuries that have passed, only they must now be worked out against a new background and preeminent among the forces which have powerfully contributed toward the making of this new background is the unparalleled development of industry and commerce, which in the last ten years has amounted to nothing less than an industrial revolution in which money and hence banking has become a dominating factor in the history of mankind.

Not only is this so, but in the United States at least the standard of living for the masses has been raised to a degree which is almost unbelievable, and what were luxuries available only for the rich have now become the necessities of the poor.

Through most of the past centuries widespread poverty was taken for granted, and misery for three-fourths of the human race was regarded as a dispensation of Providence and not capable of change.

A Wholly New Conception

HENCE it is a wholly new conception, and a very recent one, too, that there might be wealth enough to go around.

Yet sound economical authorities now tell us that the present industrial generation in the United States produces ample wealth, not only to support all its productive members in comfort during their working years if equitably distributed in proportion to their social service, but also to set aside sufficient reserves to provide a competency for every one of these workers during any enforced retirement, due either to old age or other disablement.

Let us take a few typical examples of the changes which the last few years have brought about in this respect. In 1920 the number of automobiles in the United States was 9,232,000. At the close of 1925 it was over 20,000,000. The average wealth per capita in 1920 was \$2,819. In 1925 it was \$4,406. Sales of washing machines per year in 1915 were 13,000. In 1925 they were

612,000. In the first year after the war 500,000 bath tubs were manufactured in the United States, while last year we turned out 1,500,000.

A still more convincing proof of the tremendous increase in wealth of the everyday person in the United States is shown by the fact that the assets of American life insurance companies in the past five years have increased 50 per cent over what they had accumulated during all the previous years of their existence, a fact partially explained by the fact that the present wage scale is approximately 125 per cent over pre-war rates. Savings bank deposits increased from 1910 to 1920 about 100 per cent, amounting now to over \$23,000,000,000.

Enormous as are these increases in savings deposits, they in reality do not represent the real increase in savings of the people, for with the increase in wealth of the masses numberless competitors of savings banks for the control and the custody of these funds have arisen.

During the same time building and loan association assets increased 400 per cent. Stock ownership by workers in the industries and by the public at large in public utilities is practically an entirely new form of savings, developed within the last ten years, yet it probably now exceeds or will very shortly exceed the totals in our savings banks.

Security in Savings

I WISH Godspeed to these new reservoirs for the money of the thrifty, so far as they are legitimately conducted and wisely managed, but the holder of stock, whether in a building and loan association, a public utility company or an industrial corporation, should be educated to know that he does not in these possess anything that is comparable in time of stress and financial storm, either in liquidity or safety to a deposit in a savings bank or savings department of a commercial bank whose investments and management are regulated by wise laws and are under the supervision of competent examiners.

I wish I might impress savings bankers of this country with the necessity of sustained effort and the employment of new methods and highly educated and scientifically trained personnel in "carrying on" in this changing era of business. This must be done if we are to be true to our trust as the conservators of the savings of the people of the coming generation, and if we are to prevent the diversion of these savings into unsafe ventures, and guard our de-

positors from the onslaughts of financial wolves who too often are allowed to approach their victims under corporate names which might almost deceive the financially elect themselves.

Never was there greater need of enlightened and courageous leadership among savings bankers. The conviction that the phrase, "We are living too fast," which is now heard on every hand is no idle jest, is daily forcing itself upon us.

Our prosperity is far from even, the volume of trade is enormous, but in this volume businesses which administer to luxuries rank high, while the necessities take second place. A time of real adjustment is inevitable, and with it all come political and social changes of great import. If at such times the savings of our great middle class are preserved and made secure, the shock of readjustment will be greatly minimized and the evils it produces largely overcome.

The certainty of a competence slowly attained will never produce nervous exhaustion in either the individual or the nation, but the loss of that competence through causes for which the owners are in no way to blame in times past, has been sufficient to kindle into flame the fires of the French Revolution, and more recently was a potent force in permitting the Soviet Revolution in Russia.

I would not, through these suggestions, seek to introduce a ghost of pessimism in the midst of a country-wide prosperity, but I would seek to have each banker introduce a note of caution into his individual and business life.

I feel quite sure, then, that none of you would deny that in our modern world of savings banking there is much "new wine," and if the words of our text are to be believed, "new bottles" are needed for its proper control and preservation.

New Methods Suggested

THE next question, naturally, is: What kind of "new bottles" should we employ? I can only indicate this in a most general way, for the details must be worked out by each one banker according to his particular circumstances and surroundings; but first I would suggest a new legislative "bottle" requiring the physical segregation of savings deposits. Two states, one of which is California, have already such legislation on their statute books, and since its enactment, I am told, not a dollar of savings deposits has been lost in either of these two states. If such legislation had been in

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The Value of a Savings Account

Determination to Save Is One of the Cornerstones of the Character Which Forms the Foundation for Success. Thrift Benefits the Community as Well as the Individual. The Savings Account Is an Insurance Policy for Continued Prosperity.

At the Savings Bank Division session at the Los Angeles Convention there was a contest by four speakers of the Los Angeles Chapter of the American Institute of Banking. The topic was "The Value of a Savings Account," and the contestants were Gordon F. Stephens of the Lion Tamers' Club, W. Murray Aitken of the Oxyphonists Club, Paul Kent of the Three-Minute Club, and H. W. Runkle of the Tattlers. Mr. Runkle won with the following talk:

The theory is frequently advanced that wealth and financial independence are acquired only as a result of striking it rich through some chance investment. I wonder if by careful analysis of the progress of the successful individual, we would not find his success predicated upon hard work and a savings account. Some are inclined to call it luck, but we can only agree if we define luck as that thing which happens when preparation meets opportunity. With many, a savings account, through misapprehension, spells great self-denial and great sacrifice. It means robbing life of all its pleasures and its charms, but with others it is just the opposite. They find pleasure in being thrifty, and comfort and a feeling of security in the assurance that they are fortifying themselves with a reserve against possible adversity and old age. The determination to save is one of the cornerstones of character, which quality is the only foundation to a successful career. Its adaptability to the various requirements of the millions of people and the convenience with which it can be opened and thereafter maintained make a savings account the most ideal plan of savings in use today.

The fact that it can be opened as a joint account with right of survivorship is one of its most important advantages,



H. W. Runkle, the winner of the speaker's contest

in that the formality, expense and delay of probate proceedings are avoided. One feature particularly attractive to us all is that it can be opened with \$1 and the balance increased with a few cents or a few dollars. We may not strike it rich overnight with a savings account, but our investment never fluctuates with changing business conditions. It is non-speculative and worth one hundred cents on the dollar. The privilege of partial withdrawal, practically on demand, without interrupting the interest on the remainder is a great advantage in favor of a savings account. The importance of the account in the eyes of the public is evidenced by the increase in total sav-

ings deposits of nearly \$9,000,000,000 between 1920 and 1926. The value of a savings account should not be considered from the angle of personal benefit alone, but by the extent to which it benefits the individual and the community at large.

IS it not the duty of every individual to save? A community grows only as its banks grow. It is interesting to note from the program for the conference to be held this month by the National Association of Mutual Savings Banks that the discussion is to be centered around savings as the basis for world peace.

The benefits accruing to each of us from the advantage gained by a community having savings accounts predominating in their banks are immeasurable. As a practical illustration of such, we have only to estimate the value to Los Angeles of the \$810,000 in the school savings deposits, to say nothing of the future benefits to be reaped by us all from the fact that these children have acquired the habit of thrift early.

Success in life will be measured not by how much we can get out of it, but by how much we can put into it. Our future success depends upon the fact that our neighbor, our country, is prosperous, and I believe the only insurance policy for continued prosperity is the savings account. If the individual will approach the future from that standpoint and realize that every man owes something to the upbuilding of the community that he represents, he cannot but see the necessity as well as the wisdom in maintaining a savings account.

We find ourselves being called upon to measure up to increased obligations, but to do so means we must back ourselves financially. We must awake to the realization that thrift and responsibility go hand in hand.

Agricultural Commission

DURING the past year, Burton M. Smith, the chairman of the Agricultural Commission reported to the Executive Council at Los Angeles, special emphasis has been placed on farm accounting, boys and girls club work, agricultural tours, banker-farmer short courses and the development of the county work through the establishment of a county key banker to represent the state agricultural committee.

"Farm accounting is taking the guess work out of farming," he said, "and is closely connected with good farm management. Good banking extends credit on the basis of financial statements. These statements are best taken from farm accounts. The banker who requires a financial statement from the farmer borrower is not only practicing good

banking, but he is stimulating good farming."

Fifteen states have now held banker-farmer short courses. Seven state bankers associations held their annual conventions at the agricultural college.

Key Bankers Named

"UNDoubtedly the most significant and far-reaching development of the work of our Agricultural Commission has been the establishment of the policy of having a county key banker represent the state committee in its respective counties of the state," Mr. Smith stated. "There are now twenty-six states that have actually appointed county key bankers. The duties of this official are to help plan definite county programs for which the state committee

furnishes suggestions. The county key banker endeavors to cooperate with the county agent and other farmer representatives in the county, and tries to get each bank to adopt a project, and as far as possible encourage each bank to select one or more farmers to carry demonstrations of projects. He also helps to arrange county agricultural tours and banker-farmer get-together meetings."

In Tennessee, thirty-four bankers in twenty-three counties financed the distribution of 124,065 eggs to improve the broods of chicken. In Mercer county, Pennsylvania, the bankers showed the farmers by demonstration how, by growing improved seed potatoes, the yield could be improved fifty bushels an acre. Other similar projects were successfully conducted.

Trust Company Division

Gain of One Billion One Hundred and Ninety Million Dollars in a Year Puts Aggregate Resources of the Country's Trust Companies Over the Nineteen Billion Mark. Deposits Are Near Sixteen Billion Total. Division Has Its Thirtieth Anniversary.

ATREMENDOUS gain in the resources of the trust companies of the country in the last year was announced in a telegram from John W. Platten, president of the United States Mortgage & Trust Company, New York to Francis H. Sisson, President of the Trust Company Division of the American Bankers Association, and read by Mr. Sisson at the Division's session at the Los Angeles convention.

"Our company has just completed the compilation of figures for the twenty-fourth annual edition of our book, 'Trust Companies of the United States,'" said Mr. Platten, "and the aggregate resources on June 30 this year were over \$19,000,000,000, and greater than 1925 by \$1,190,000,000. Deposits totalled nearly \$16,000,000,000, a gain of \$900,000,000 over last year.

"The great Empire State reports an increase in resources of \$260,000,000 over 1925, with a total of \$5,000,000,000, which is over 25 per cent of the aggregate for the entire country.

"Second only to New York in point of gain is the Golden State of California with \$160,000,000 added during the year, for a grand total of \$1,800,000,000.

New Jersey's Big Gain

"NEW JERSEY added over \$100,000,000 to her total during the year and is now for the first time above the billion dollar mark.

"With a gain of \$90,000,000, Illinois for the first time enters the two billion dollar class. Ohio is next, with a gain of \$80,000,000 and a grand total of \$1,500,000,000, while Pennsylvania with a gain of \$18,000,000, maintains second place in total resources of \$2,270,000,000.

"These figures surely reflect a healthy and progressive condition. Viewed in the light of the present strong position of trust companies and with the prospect of a greatly enlarged field of usefulness as a result of the widespread educational effort now being put forth, the outlook is distinctly promising."

The Los Angeles meeting marked the thirtieth anniversary of the founding of the Trust Company Division, and among those to congratulate the members by telegram was Breckinridge Jones, chairman of board, Mississippi Valley Trust Company,

to whom Mr. Sisson referred as "the founder." Oscar Wells, President of the American Bankers Association, extended his congratulations and good wishes in person.

Problems Solved by Time

"I WANT to congratulate you upon your thirtieth birthday," said Mr. Wells. "A few years ago I heard a newspaper man

favor of nation-wide prohibition. And they said, we will never have woman's suffrage in this country. Men are chivalrous, they are not going to be willing for their wives and sisters and mothers to go to polling places, some of which are disreputable, and cast their ballots. But you see what has happened. We said then the place for woman was in the home, but we say it is all right for them to go now and cast their ballots, for the only place whiskey is now is in the home, so it is all right."

"Then, if you remember Andrew Dixon White's book of thirty years ago, a paragraph of which deals with a very interesting subject of the charging of interest for the use of money, you will appreciate that in a comparatively short time, in the life of a nation, many fundamental changes take place in economics as well as in the moral or personal virtues or habits of men and women.

"You all know that up until about 300 years ago there was no common practice of lending money for interest, and therefore there was no banking business as we recognize it today. It is true that in the Grecian Empire they did recognize it and passed laws providing for it, within limitations, but in the Roman Empire they never did accept it, construing the charging of interest as usury and therefore, against the law of God and the law of the state, and following that time, through the development of England, Germany and France, the church, the state, the courts and public judgment was against the lending of money for interest, construing interest as being usury, regardless of the rate.

"Not until the time of Calvin did we begin to construe it differently and fix the exorbitant or oppressive rate of interest as being usurious.

"So, I want to come and congratulate you upon your thirtieth birthday, because when this division meets on its five hundred and thirtieth birthday, somebody may recall the fact that the President of the American Bankers Association congratulated the Division on its thirtieth birthday and will marvel at the vast changes that have taken place in the 500 years that have elapsed.

"I want to congratulate you because in a business which is highly technical you have interwoven two features of your develop-



EDWARD J. FOX
President Trust Company Division

say that the bankers take themselves entirely too seriously in their relations to the lives of men; that in a few more years the things about which we concern ourselves are passed away and the problems about which we worried are solved without our interference or assistance. He said: 'Ten years ago it would never have occurred to us that we would have national prohibition in this country. We said then, the people of the United States are liberty-loving; they are fond of their rights and privileges, and they are not going to give them up by passage of a constitutional amendment in

ment in such a way as to be of such advantage to the clients of the fiduciary functions of the trust companies, and I refer particularly to the manner in which you have been able to cooperate with the legal profession, so as to practically eliminate what we thought a few years ago was a potential conflict between the two. I want to point out, also, the matter of the insurance, your cooperating with the insurance companies to the point by which your clients are benefited as well as the patrons, the policy holders of the insurance companies.

Praised for Cooperation

"I WANT to congratulate you further upon the magnificent manner in which you have not only thrown open your meeting to other bankers, but have been willing to join the State Bank Division and the National Bank Division with trust departments, in the holding of a conference, as an evidence of your willingness to cooperate with all of the elements of the American Bankers Association interested in fiduciary matters."

In addition to the address by its President, which is printed elsewhere in this issue, the Division heard talks by William Harrison Waste, Chief Justice of the Supreme Court of California, on "The Law and the Trustee"; Danford M. Baker, vice-president, Pacific Mutual Life Insurance Company, Los Angeles, on "Insurance and Trust Company Cooperation," and George W. Ayers, vice-president, National Association of Underwriters, who spoke extemporaneously. The addresses of Justice Waste and Mr. Baker appear elsewhere in this issue. That of Mr. Ayers follows:

"Isn't it peculiar that here are two businesses that have trotted along side by side, two services, two human services, for many, many years, neither one realizing that one could complement the other. We have looked upon you as business organizations, tending to your own affairs, and you have looked upon the life insurance man as a fellow doing a certain good work in the world but realizing not at all what we could do for you, and we not realizing what you could do for us.

"We have not understood each other. That is the whole thing.

"In every large center in America today there is a local association of the National Association of Life Underwriters. In those cities where we have no association it would not be very difficult for you to single out in that community the four or five or a dozen life underwriters. We realize in our business that merely sitting down and writing a letter to a prospective life insurance client does not bring an application. It brings no business.

"For you to sit in your trust company and write us a letter saying that you have the various departments to handle our business through your trust arrangement won't do the trick. You need to know more about the thing about which we are thinking, and we certainly need to know more about your business and your operations.

"Then, when you get home, will you seek out the Life Underwriters Association, its officers, its executive committee, and if there be no association in that center, will you seek out the leading life underwriters, and if you have to invite them to lunch at your expense I am real sure that the returns will pay ample dividends on the in-

vestment, because the moment you get these men together, good, ethical, high professional men in these days in the life insurance business, and tie up the service they are trying to render with the service that you are trying to render, right away, there is going to be some good business on both sides."

The activities of the various committees of the Division were depicted by lantern slides explained by Deputy Manager Mershon and the session closed with a brief congratulatory address by Melvin A. Traynor, president, First Trust and Savings Bank of Chicago, and first vice-president of the American Bankers Association.

The New Officers

THE following officers were elected and installed for the coming year:

President, E. J. Fox, Easton Trust Company, Easton, Pa.; Vice-President, Walter S. McLucas, Commerce Trust Co., Kansas City, Mo. William Rhodes Hervey, Chairman of Executive Committee, vice-president Pacific-Southwest Trust & Savings Bank, Los Angeles. Executive Committee, James H. Perkins, president, Farmers Loan & Trust Co., New York; J. Sheppard Smith, president, Mississippi Valley Trust Co., St. Louis; W. J. Stevenson, vice-president, Minneapolis Bank & Trust Co., Minneapolis; Gilbert T. Stephenson, vice-president, Wachovia Bank & Trust Co., Raleigh, N. C., and J. Arthur House, president, Guardian Trust Co., Cleveland, Ohio.

The nominating committee was composed of Lucius Teter, chairman; William Rhodes Hervey, John C. Mechem, John N. Stalker, and Elliott C. McDougal.

Enrollment of A. I. B.

THE enrollment in the standard and special courses of the American Institute of Banking increased to 35,210 during the past year. Bruce Baird, the retiring President of the American Institute of Banking, reported to the Executive Council at Los Angeles.

"The Institute today is larger, its educational program broader, the scope of its activities wider and its organization more compact than ever before," he reported. The Institute continues to show a healthy growth in membership, he added, and during the past year an increase of 2232 has been made, the total at this time being 57,456. Twenty-three new chapters have been organized, bringing the total up to 186, and sixteen study groups have been formed in places considered too small for chapters.

He stated that the Institute proposed to bend its efforts toward the education of the bank employee in the smaller cities, towns and rural districts. "More and more these study groups must be formed," he reported, "so that the bank employee in the sparsely populated districts will be given the same opportunities for education as those in the larger cities now enjoy."

There was an increase of more than 5000 in the student body last year, a total of 35,210 persons being enrolled in the standard and special courses. "Probably the outstanding accomplishment of the year," he concluded,

"has been the creating of an advanced educational course, to be known as the Graduate

Course, and of a plan for a new Board of Regents, which will dovetail into it."

Official Notice

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, OF THE AMERICAN BANKERS ASSOCIATION JOURNAL, published monthly at New York, N. Y., for October 1, 1926.

1. State of New York, county of New York, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared James E. Clark, who, having been duly sworn according to law, deposes and says that he is the editor of the AMERICAN BANKERS ASSOCIATION JOURNAL and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

11. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 110 East 42nd Street, New York, N. Y.; editor, James E. Clark, 110 East 42nd Street, New York, N. Y.; managing editor, none; business manager, James E. Clark, 110 East 42nd Street, New York, N. Y.

12. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) The American Bankers Association, 110 East 42nd Street, New York, N. Y. (A voluntary, unincorporated association of banks: Oscar Wells, First National Bank, Birmingham, Ala., president, and Fred N. Shepherd, 110 East 42nd Street, New York, N. Y., executive manager.)

13. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

14. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

15. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is:— (This information is required from daily publications only.)

JAMES E. CLARK
Editor.

Sworn to and subscribed before me this 24th day of September, 1926.

(My commission expires March 30, 1927.)

[SEAL]

Lucille P. Gropp, Notary Public.

Thirty Years of Service

By FRANCIS H. SISSON
Retiring President, Trust Company Division

How the Division Has Served the Trust Companies as the Business and Its Intricate Problems Have Grown. Cooperation with Insurance Companies. Researches Conducted. "We Have Only Just Started on the Pathway of Progress," Is Slogan.

THIS year the Trust Company Division celebrates its thirtieth birthday. Organized in 1896, with an initial membership of seventeen companies, the close of the convention year of 1926 finds the Division with a total membership, active and associate, of 3141.

Thirty years ago there were but 242 trust companies in the United States with resources of \$807,000,000. Today there are 2701 companies with resources of \$18,000,000,000.

The development of the trust companies of America and the history of the Trust Company Division of the American Bankers Association are inextricably intertwined. Called into being by the needs of the trust companies, growing both in membership and in size, the Division has applied itself vigorously to the task of meeting and anticipating these needs.

It has been stated that "five years prior to the organization of the Division there were not fifty pages of printed matter on the subject of the corporate fiduciary." Trust companies were, in the minds of many persons, confounded with the business trust, such as the Standard Oil, United States Steel, etc., and were often looked upon with hostility and suspicion. As stated in 1896, in the first call for an organization meeting, there had been "but little published as to trust company practices and no general meeting for an interchange of ideas, experience and method, no general move to secure uniformity of action, similarity of laws or practical benefits to be derived from personal acquaintance."

Today, thirty years later, it may safely be said that the Trust Company Division has successfully bridged this gap and adequately served as the medium through which the desired benefits have been attained.

The Division's aims are so wide in scope and long in range, requiring so many continuous years of effort for achievement, that the report of any one year may seem but a repetition of that of the previous year's activities.

However, its work must, because of its nature, necessarily each year follow the same general lines, though varying considerably as to details.

Trust Company Legislation

IN more recent years the committees which have been most active have been those handling matters of legislation and work of an educational and constructive nature. Hardly a year passes but some proposed legislation vitally affecting the well-being of

the corporate fiduciary directs our attention to activities at Washington. A great deal of such legislation is beneficial. Many times, however, bills positively detrimental to the interests of trust institutions in their service to the people of America have been introduced, though, happily in most cases, have not been written into the law of our land.

An adequate survey of state legislative events as they affect the corporate fiduciary would fill many volumes. From East to West and from North to South, men elected to office appear in their legislative halls with ideas for the regulation of banks and trust companies which, if enacted into law, would be economically unsound and many times would result in disaster. In these times the average legislator is unfamiliar with banking and trust practice, and a great deal of personal work must therefore be done by men who are practical operators in the field in order to overcome unsound theories or prejudices. It is obviously impossible, due to the widely varying economic and social conditions in various parts of our country, to have one standard law governing fiduciary matters, but considerable headway along the lines of uniformity can conceivably be made during the next few years.

The securing of adequate revenue for governmental purposes is a complex and ever-present problem. At the time of enactment or reenactment of a revenue bill, almost every interest in America is on guard for its own protection. The Division has been most successful in getting just and proper measures enacted along the lines desired by corporate fiduciaries for the best interests of their clients. The most courteous treatment has always been accorded representatives of our Division when, together with representatives of the Legal Department of the Association, they have appeared before committees and other bodies at the national capitol.

One of the Largest Movements

NO business or profession in America has had a wider influence or more stabilizing effect than that of insurance. Thirty years ago there were in the archives of trust companies perhaps a few trust indentures under which insurance funds were to be administered. Great impetus to this work was not given until a few years ago, but the progress which has been made justifies the belief that we have entered upon one of the largest movements ever undertaken by the Trust Company Division. The cordial cooperation given by the insurance companies and the National Association of Life Un-

derwriters has been a delightful feature in the development of this work for the benefit of thousands of our citizens. Our imagination carries us to a point in the near future when an army of nearly 200,000 life underwriters will be fully informed about the activities of the corporate fiduciary and a similar army—though somewhat smaller—composed of trust officials will understand the technique of insurance. Through the completion of this educational process, the work of cooperation will find its greatest rewards.

For the past four years eight research investigations of the trust companies themselves have been carried on by the questionnaire method, and the information obtained has proved most enlightening, valuable and authoritative. These researches have demonstrated, among other facts, that American trust companies are 100 per cent safe; that the business accepted by trust companies is of a highly ethical character; that our members are earning on investments made by them and returning to the beneficiaries of their trusts, net income yields equal to current rates of interest on conservative investments in their own localities; that the compensation of trust companies is usually known and fixed at the time of the inception of a trust and that in most cases there is no profit realized by the trustee in any dealings with the trust property; that the greatest problems confronting trust companies, in order of their importance, are: Business development, fees, investments, inheritance taxes, accounting and recording methods. Members of the Division have given splendid cooperation when these studies were being made and the material secured is now in the Division office and available for the use of members whenever needed.

Only Just Started

IT may fairly be assumed that in the story of corporate fiduciary progress to be written in the future it will be recorded that the first thirty years were the hardest. Certain it is that the rapid growth in resources and capacities for service by the trust companies has been one of the outstanding features of the financial history of the first quarter of the twentieth century.

But it is equally certain that we have only just started on the pathway of progress and that an ever growing appreciation of both the quality and quantity of service to be rendered by the institutions we represent will lead to their continued growth and a constant expansion of the idea they represent.

The Law and the Trustee

By WILLIAM HARRISON WASTE

Chief Justice of the Supreme Court of California

Trusts Were First Defined and Reduced to Practice by the Romans. Basis for Present Day Procedure Is Found in Old English Law. The Trust Company Idea Is Little More Than 100 Years Old. How the Courts Safeguard the Beneficiary.

AS a general proposition, everyone competent to enter into a contract, or make a will, or to deal with the legal title to property, may make such disposition of it as he pleases. He may annex such conditions and limitations to its enjoyment as he sees fit, and he may vest it in trustees for the purpose of carrying out his intentions.

In the earlier states of society, the rules that governed the ownership, disposition and use of property were simple and of easy application. But, with the development of states and accumulation of property, and as the business and relations of life became more complex, the rules of law, which the new complications demanded, became themselves complicated and sometimes difficult to understand and apply.

It was out of these complications that the law, doctrine and learning of trusts slowly and gradually developed until we now recognize and apply to the multitude of relations, duties and responsibilities arising out of the trust relation certain definite and well-established principles of equitable and legal cognizance, which have become almost axiomatic in their application.

Trusts, in the general sense that they are obligations upon persons arising out of a personal confidence reposed to apply property faithfully and according to such confidence, were first defined and reduced to practice under the jurisdiction of courts by the Romans. Under the *fidei commissum* of the civil law, the beneficiary could rely upon the personal inclination, integrity and good faith of the person trusted. He had only an equitable, moral claim or right, but no legal remedy by which he could compel a performance of the commission. It was under these circumstances that the Emperor Augustus directed the consuls to interpose their authority and compel the execution of such trusts. Finally, a praetor was appointed, who had jurisdiction over all *fidei commissa*, and full power to give adequate relief in all proper cases.

The Development of Trusts

THE story of the origin and development of trusts under the common law, which forms the essential basis for so much of our own rules of conduct, is most interesting. It is entertainingly epitomized by Mr. Lewin in his work on "Trusts and Trustees," where, in the opening sentences of his treatise, he says that the adaptation of trusts to the English law "may be traced to the ingenuity of fraud." By the inter-

position of a trustee the debtor thought to withdraw his property out of the reach of his creditor, the freeholder to intercept the fruits of tenure from the lord of whom the lands were held, and the body ecclesiastic to evade the restrictions directed against the growing wealth of the church by the statutes of mortmain.

Another inducement to the adoption of the new system was the natural anxiety of mankind to acquire that free power of alienation and settlement of their estates, which, by the narrow policy of the common law, they had hitherto been prevented from exercising. Originally the only pledge for the due execution of the trust was the faith and integrity of the trustee; but the mere feeling of honor proving, as was likely, when opposed to self-interest, an extremely precarious security, there was originated the writ of subpoena, by which the trustee was liable to be summoned into chancery and compelled to answer on oath the allegations of the beneficiary of the trust. Thus, in the words of an old counselor, "the parents of the trust were fraud and fear, and a court of conscience was the nurse."

The manifold frauds and mischiefs to which the new system gave occasion made necessary the enactment of remedial statutes. Some of these occasioned greater evils and hardships than they remedied. It was necessary, during the development of the system, both to establish and to explode a vast number of distinctions and subtleties. It would not be profitable to follow these in this discussion, for many of them never obtained a foothold in America. While common-law rules of procedure and construction still exist in some of the states, the tendency in this country has been toward the adoption of statutes having for their purposes the avoidance of the "intricacies, frauds and concealments" which were possible under the old system of uses and trusts. The purpose of these statutory enactments, said the Supreme Court of California, following the rule laid down in New York, "is clearly to confine trusts within very narrow limits, and to allow them only in a few instances where they might be specially used to subserve proper and necessary purposes."

Equity and Rules of Law

WHILE the court was there speaking of trusts in relation to real property, I have quoted its language as aptly showing the development of the doctrine and the law applicable to and governing the

whole subject. Conceived, as it were, in equity, trusts and trust relations have come down to the present, through the mutations of time, so influenced and molded by the processes of gradual development as to be now regarded with the greatest favor.

While the administration of trusts may be said, generally, to fall within the cognizance of the equity side of the courts, the rules limiting the purposes for which trusts may be created, governing the conduct of trustees, and determining the scope and extent of their powers, have become rules of law as well. Although it has been said that "the trustee is the favorite child of equity," I will not attempt nice distinctions between equitable principles and legal rules in their relation to the subject at hand.

The jurisprudence relating to trusts is extremely comprehensive in its scope, the ramifications of the subject penetrating well-nigh every branch of the law which has to do with contractual relations and the enforcement of contractual rights. Both law and equity require of the trustee the highest degree of good faith, and impose on him a large degree of responsibility. As one of the courts has said, "The fundamental principle of the relation of trustee and *cestui que trust* is that of confidence."

As was concisely stated very recently by the executive vice-president of a large trust institution in this state, "The law recognizes the great amount of confidence imposed in a trustee, the responsibilities he assumes in the management of property and for the care and protection of the beneficiaries of trusts, and, therefore, throws its protecting arms around the trustee and, at the same time, holds him to the highest degree of accountancy."

The Trustee in Law

IN law the trustee is regarded as the absolute owner of the land or fund entrusted to him, and he may, therefore, exercise control and dominion over it; but equity, which regards the trustee as a mere instrument for the execution of the trust, will not permit the interest of the *cestui que trust* to be affected by any act of misconduct on the part of the trustee. Certain familiar provisions of code law, which have developed out of the application of the maxims of equity, and which are but a codification of equitable principles, will illustrate the high estate of the trustee, and the law's jealous guardianship of the interests of the beneficiary under the trust. In all matters connected with his trust,

a trustee is bound to act in the highest good faith toward his beneficiary, and may not obtain any advantage therein over the latter by the slightest misrepresentation, concealment, threat or adverse pressure of any kind. Transactions between the trustee and the beneficiary are subject to rigid scrutiny, and are voidable at the instance of the beneficiary for any violation of duty by the trustee.

Courts Safeguard Property

FOR the reason that it is against public policy to permit persons occupying fiduciary relations to be placed in such a position that the influence of selfish motives may be a temptation so great as to overpower their duty and lead them to a betrayal of their trust, the courts hold the rule to be unyielding that a trustee shall not, under any circumstances, be allowed to have any dealings in the trust property with himself, or acquire any interest therein.

So strictly is this principle adhered to that courts will not permit any investigation into the fairness or unfairness of the transaction, nor allow the trustee to show that the dealing was for the best interest of the beneficiary, but will set the transaction aside, at the mere option of the *cestui que trust*. It may sometimes happen that the terms on which a trustee has dealt, or attempted to deal, with the estate or interests of those for whom he is a trustee have been as good as could be obtained from any other person; they may even at the time have been better, but so inflexible is the rule that no inquiry on that subject is permitted. "A trustee may not use or deal with the trust property for his own profit, or for any other purpose unconnected with the trust, in any manner."

Strict fidelity is required of the trustee, and he will not be allowed to manage property entrusted to him, or speculate with it, for his own benefit or profit, and to the injury or prejudice of the beneficiary.

With certain exceptions, "neither a trustee nor any of his agents may take part in any transaction concerning the trust in which he or any one for whom he acts as agent has an interest, present or contingent, adverse to that of the beneficiary." The exceptions are predicated on knowledge, and absence of undue influence, in the case of beneficiaries having capacity to act, and consent of a competent court, in the case of those not having such capacity. The relations between the trustee and the beneficiary are of such highly confidential nature that the former "may not use the influence which his position gives him to obtain any advantage from" the latter. As one court has said, the trustee may "not put himself in position in which to be honest must be a strain on him."

Trustee Closely Restricted

NO trustee, so long as he remains in the trust, may undertake another trust adverse in its nature to the interest of his beneficiary in the subject of the trust, without the consent of the latter." If he "acquires any interest, or becomes charged with any duty, adverse to the interest of his beneficiary in the subject of the trust, he must immediately inform the latter thereof, and may be at once removed."

"All transactions between a trustee and his beneficiary during the existence of the trust, or while the influence acquired by the trustee remains, by which he obtains any advantage from his beneficiary, are presumed to be entered into by the latter without sufficient consideration, and under undue influence." This does not mean that a trustee may not, under any circumstances, deal with his beneficiary. But if he does deal with him in such manner as to obtain an advantage, the burden of showing that the transaction was fair is cast upon the trustee.

"A trustee who wilfully and unnecessarily mingles the trust property with his own, so as to constitute himself in appearance its absolute owner, is liable for its safety in all events, and for the value of its use."

A trust fund wrongfully converted into another species of property will be held in its new form liable to the rights of the *cestui que trust*, where its identity can be traced. If the fund is so mingled with or absorbed into property of the trustee as to be no longer capable of identification, and the beneficiary cannot follow it, he has the right of a general creditor against the trustee, and his estate in the event of the latter's death. A trustee who uses the trust property for his own profit, or for a purpose not connected with the trust, "may, at the option of the beneficiary, be required to account for all profits so made, or to pay the value of its use, and, if he has disposed thereof, to replace it, with its fruits, or to account for the proceeds, with interest."

"A trustee is responsible for the wrongful acts of a co-trustee to which he consented, or which, by his negligence, he enabled the latter to commit, but for no others." Each trustee must make himself acquainted with the fund committed to his care, and should examine into its condition and investment. When, by his negligence, he suffers his co-trustee to waste and dissipate the trust property, when he has the means of preventing it by proper care, he is liable to the beneficiary for the estate thus wasted.

For the concise statement of the obligations of trustees to the beneficiaries under the trusts administered by them, I am indebted to the Civil Code of my own state. Some of the comments which I have made, by way of application of the rules cited, are based on the decisions of the courts of this and of other jurisdictions, where the principles of the common law find expression in code and statute enactments, which follow the doctrine relating to trusts generally accepted in this country.

Birth of the Trust Company

THE relation between the trustee and the beneficiary has, until within a comparatively recent time, been regarded as essentially personal, for the reason that the trustee was always an individual. During the last century another, and an entirely new feature, has come to be regarded, one which has a direct relation to the interests represented in this convention.

The idea of "trust companies," functioning in fiduciary capacities, is a little over 100 years old. The first announcement of

the assumption by corporations of trusteeships is said to have been contained in a New York paper appearing in 1822. We are now told that there are more than 2700 trust companies in the United States. In addition to this number, many state and national banks have fiduciary powers and carry on a trust business. The right of banks to do a trust business, sometimes questioned, has been definitely upheld by the decisions of the highest state and federal courts. The Supreme Court of the United States has held that Congress has power to endow national banks with functions both of a public and private character, and that it may, therefore, permit national banks applying therefor, when not in contravention of state or local laws, to act as trustees.

Domestic trust companies formed under state laws, and complying with prescribed regulations, may, if their articles of incorporation empower them to do so, carry on within the state the business of acting as trustees in any of the capacities mentioned in the local statutes. Many of the states permit foreign trust companies, those formed in other states, to enter their borders and do a like business; but, whether domestic or foreign, they are regarded as proper and legitimate subjects of legislative regulation by the state in the exercise of its police power. In a few of the states trust companies formed in other jurisdictions are not permitted to act as trustee.

State legislatures have sometimes classed banks and trust companies in the same category for the purpose of regulation, and, in specifying what kinds of corporations come within the purview of their regulatory enactments, have used the word "bank" to mean, not only any incorporated banking institution, which shall have been created to conduct the business of receiving money on deposit, but also such corporations as are permitted by the act to carry on business which has, by the trend of common understanding and opinion, come to be regarded as being appropriate and relevant to the banking business, functions which, in the judgment of the legislature, make the business of the banks more successful.

It is not my province to here discuss the advantages of corporate, rather than individual, trustees. Business and human enterprises follow the natural course of evolution. There is every reason to believe that the growth of trust companies will continue on an increasing scale. Just how rapid will be the further development of the trust relation when assumed by corporate trustees, will depend upon the fidelity with which the trusts are administered. Those trust companies serve themselves best, and make the greatest contribution to the advancement of the common cause, which hold steadfastly to the theory that the fundamental principle underlying the relation of trustee and *cestui que trust* is confidence.

THE trust companies of the United States are chargeable with approximately \$35,000,000,000 worth of property and securities, according to Norman R. Morison, vice-president and trust officer of the Southern Trust and Commerce Bank of San Diego, Cal. Despite these vast figures, he states that the loss sustained by trustors for the past year was practically negligible.

Insurance and Trust Company Cooperation Realized

By DANFORD M. BAKER

Vice-President, Pacific Mutual Life Insurance Company, Los Angeles

The Old Feeling of Competition Between the Two Classes of Institutions Is Rapidly Passing. Needs of Many Policyholders Are Best Served Through the Funded or Unfunded Trust Plan. Prohibition Aids Banking and Insurance Fields.

THE nineteenth and twentieth centuries cover a period of remarkable accomplishments. Especially is this true in the field of industrial and commercial expansion. No era in history approaches this period in the prolific production of wealth. These achievements would not have been possible without the aid of that most vital institution of modern society, the bank. There have been many difficult problems to contend with, but our American banks have courageously solved them one by one, and evolved into a cohesive system that is without doubt the most stable and effective in all the world. Not only is this system characterized by a high degree of efficiency, but, I am confident, may be regarded as the basic factor in our national prosperity.

One of the outstanding, if not the dominant, problems of the past few decades has been to provide the materials and instruments of industry. This has been, primarily, the task of the industrial leader. One of the essential, if not the most important, factors, however, has been capital, for the furnishing and conservation of which industry has relied largely upon the banks. But aside from the deposits of banks, we find the fund and instruments of capital reflected in the premium income of life insurance companies, investments in securities, the physical properties of railroads, factories, public utilities, and many other forms. The total represents a stupendous sum, to be controlled judiciously, employed wisely, and constantly guarded. It is the task of our financial institutions, such as our banks, trust companies and life insurance companies, to see to this. Indeed, the wise conservation of these resources appears to be our most urgent duty. Not only should our principal be carefully guarded, but our income wisely utilized, in order that there may be available at all times the maximum fund of capital for commercial purposes.

We can make no contribution more vital to our people than to foster thrift. Since continued prosperity and economic development will depend, primarily, upon the supply of capital funds, it becomes very important to encourage the universal habit of saving. The institutions we represent are in a peculiarly favorable position to do this.

It seems unnecessary to quote figures in respect to savings, inasmuch as you are fully informed as to the steady increase that has taken place in bank deposits, nor is it

essential that the record of trust companies be reviewed. Despite the degree of prosperity which the American people have experienced during the better part of the past decade, it cannot be truthfully said that they have been careless with their incomes. In 1870 there were 1,630,846 savings bank accounts in the United States. In 1920 there were 11,427,566, while in 1925 this figure had increased to 14,539,947 depositors in mutual and stock savings banks, representing deposits for a total of \$9,065,181,000.

On the other hand, during the same period of time, the number of life insurance policies in force increased from 747,807 in 1870 to 66,499,369 in 1920, while in 1925 there were 97,627,559 legal reserve policies in force. Of these 23,881,758, representing \$54,519,175,903 of insurance, were of the ordinary type, while 73,735,801 for \$12,823,680,595 were industrial. In addition there were 11,881 group policies for a total of \$4,299,271,187. In considering these figures, it should be remembered that in many instances several policies have been issued on the same life. The combined minimum amount of legal reserve insurance eventually to be paid to widows, children and other beneficiaries is \$75,298,284,394. It will thus be seen that, during the period in question, there has been a growing disposition to insure human life values and thus conserve for dependents the property that has been accumulated.

Balancing Income

LIFE insurance is being increasingly adopted to equalize the varying productive abilities of the individual over a long period of time. In this manner he can balance the high earning power of youth with a comparatively low earning capacity during old age. This tendency has an important bearing upon the business of both banks and trust companies. From the point of view of the bank, the money thus accumulated and deposited with life insurance companies in the form of premiums constitutes an important element in the supply of capital to be used for business. The investment of this money in mortgages and railroad, public utility and industrial bonds has done much to stabilize business and to relieve bank credit for commercial purposes. While the bank is primarily concerned with short-time loans, the investments of life insurance companies usually extend over a period of years.

Between the premium deposit and the sav-

ings deposit there is an intimate relationship, because the one indirectly encourages the other, and the two are admirably equipped to attend to the financial requirements of business.

An Influence on Banking

ONE of the greatest influences during the past few years in the expansion of the volume of bank business is to be found in the growing magnitude of life insurance. The money that passes through this channel in one year would almost be sufficient to meet the expenditures of the Federal government. During 1925 the combined income, from all sources, of more than 300 companies writing more than 95 per cent of the life insurance business was \$3,017,800,322. Their expenditures, apart from dividend to policyholders, amounted to \$895,019,535. The total amount of money coming into and going out from these companies was \$3,912,819,857, all of which passed through the banks of the United States.

It is difficult, perhaps, for most people to appreciate such a stupendous sum. To comprehend the innumerable benefits that flow to society because of this process is even more difficult. Yet that is but one element in the stabilizing effect of life insurance.

At the close of 1925 these same companies had total admitted assets of \$11,537,614,609. There was invested in real estate mortgages \$4,799,216,486, about equally divided between urban property and farm lands, while \$4,331,288,480 was invested in high-grade bonds, principally railroad and public utility.

What makes these figures particularly significant is the fact that the amount of life insurance in force in this country is over three times as much as in the rest of the world.

The relation of life insurance to the trust company is equally noteworthy. During the past few years officials in these institutions have been impressed by the fact that the conservation of estates depends very much upon life insurance. Particularly is this true in view of state inheritance and Federal estate taxes.

There are two aspects to the estate problem: First, the creation of the estate, and, second, its administration. Estates may be created in one of two ways, either through savings and investment or by means of life insurance, which, incidentally, is the product of savings. Estates created in the form of

ordinary property are usually best administered for the benefit of the heirs by trust companies. Estates created solely by life insurance may be administered by trust companies or, nominally, by life insurance companies through the installment method of distributing the benefits.

The use of the expression "life insurance trusts" has recently become quite popular, and is often misunderstood. Generally speaking, a life insurance company is not authorized to exercise trust functions. The expression, therefore, is properly applicable only to trusts proper, usually assumed by trust companies, in which life insurance proceeds constitute the primary element.

Funded and Unfunded Trusts

THERE are two kinds of life insurance trusts, the one known as funded, the other as unfunded.

The funded trust is one in which the declaration of trust provides for the transfer to the trustee of securities yielding a sufficient income to meet the premiums on the policies of insurance. The policies are assigned to or made payable to the trustee, whose duty it becomes to take care of the payment of premiums and the collection of the policy proceeds upon maturity. By means of such a plan the estate of the insured may be increased from 100 to 300 per cent.

Under the unfunded trust plan, the premiums are paid by the insured, and no duty involves upon the trustee until the death of the insured, when such trustee collects the policy proceeds and administers the funds in accordance with the terms of the trust agreement.

Until very recently there was a feeling on the part of practically all insurance and trust companies, and consequently on the part of their representatives, that they were necessarily competitors, but this feeling is rapidly giving place to a conviction that co-operation, rather than competition, should characterize the relations of the two classes of institutions. This change in attitude is largely due to the activities of the Committee on Insurance Trusts of the American Bankers Association, and similar committees of the National Association of Life Underwriters and the Association of Life Insurance Counsel. As the result of the efforts put forth by these committees, it is becoming clear to all that the needs of many of the policyholders can best be served through the medium of the settlement options of their policies, but that the requirements of a considerable number call for the peculiar services that the trust companies are best fitted to render. To be more explicit, where the estate is not large and consists principally of insurance, a settlement option providing for payment in accordance with a fixed or definite plan will usually be found adequate, but where the estate is large and varied in character, insurance not being a dominant factor, the more flexible arrangement of a life insurance trust, permitting the exercise by the trustee of discretionary powers, will generally prove more advantageous. Each case should be considered in the light of its peculiar facts and the plan adopted which will best conserve the interests of the policyholder.

We are concerned also with the proper conservation of trust estates created during life and composed of securities and other evidences of wealth. Every trust estate requires some life insurance, and if that estate be the product of a balanced program it is probable that the life insurance requires a trust. Consequently, there is a responsibility upon the underwriter when preparing an insurance program to give due regard to the value of a trust as well as upon the trust officer, in planning the handling of a trust, to give due consideration to the importance of life insurance in estate conservation.

In connection with every estate there are two things particularly to be guarded against, protection against speculation and fraudulent promotions and shrinkage due to debts, costs of administration and taxes. The first of these may be taken care of by the creation of a trust, while the second can best be taken care of through life insurance. A serious problem confronting the man with a substantial amount of property is how to distribute it with the minimum shrinkage. He cannot accurately foreknow the time of death, and, therefore, is unable to put his property in a condition that will make distribution a simple, inexpensive process. Death comes unawares, and, generally, quite untimely. There are debts as well as complicated and uncompleted transactions that will fall heavily upon the estate, and unless there is some life insurance available to meet the vital obligations, the problem of liquidating the property and administering it becomes extremely serious. We have followed this situation very closely, and it is interesting to note that in more than 2000 individual estates analyzed, both local and in other parts of the country, the ratio of shrinkage increases with the value of the property. For instance, it has been observed that estates valued at from \$50,000 to \$100,000 will have a total shrinkage of about 17½ per cent. Estates having a gross value of from \$100,000 to \$500,000 shrink 18 per cent, while those with a value of more than \$500,000 but less than \$1,000,000 will shrink some 20 per cent. Those between \$5,000,000 and \$10,000,000 shrink almost 24 per cent, and those over \$10,000,000 about 29 per cent. In California the ratio of many hundred estates analyzed has been from 2 per cent to 2½ per cent less than these classifications. The difference is due to the state inheritance tax rates.

It is quite apparent that if a man leaves an amount of property having a gross value of \$1,000,000, the shrinkage due to costs, debts and taxes will approximate, on the average, nearly \$200,000. That is the sum which should measure his life insurance program for the conservation of his property. Should he be worth \$10,000,000, and death suddenly overtake him, the total shrinkage would be, on the average, between \$2,500,000 and \$3,000,000.

With the recent modifications in the Federal estate tax law, it is reasonable to assume that there will be some change in the ratio of the shrinkage due to taxes. There is no assurance of that inasmuch as we cannot as yet determine what measures the individual states will take to offset the difference in taxes by increasing local levies to absorb the credit allowed under the Federal law.

Importance of the Trust

A THOROUGH financial program for the average individual should embrace savings and life insurance as important elements. Where there is any substantial accumulation of property the trust enters as the third vital factor. In order to perfect and administer the ideal estate, there must be cooperation between the life insurance company, the trust company and the bank. Judgment must be exercised at all times, and those who devote their efforts to one of these branches of finance should always work with the interest of the individual constantly in mind, and propose only a well-balanced plan that will give proper consideration to these three fundamental and basic institutions.

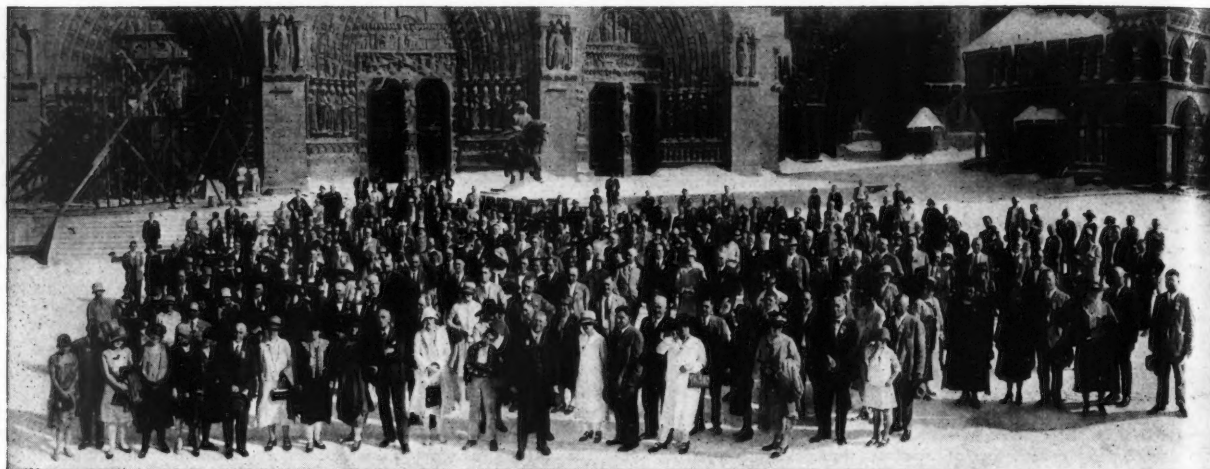
We have witnessed many profound changes within the United States during the first quarter of this century. Many of those changes have been beneficial. Perhaps few other businesses can anticipate what will take place, or first note the results when vital changes occur, as accurately as financial organizations. This has been particularly true of the prohibition amendment. Since that law has been in operation the mortality rate in life insurance has shown a material decline, and we attribute a part of it to the eighteenth amendment. Banks and trust companies have also been affected, and at no time have deposits grown to the volume, relatively and actually, as during the past five or six years. Certainly a substantial part of that increase has been due to prohibition. Irrespective of the moral considerations, which do not obviously enter into this discussion, the economic benefits derived from this law have been of incalculable financial value to the country.

This relationship of life insurance to trusts is real, and cooperation is eminently desirable since we are collectively as well as individually serving the interests of a vast aggregation of people and thus better contributing to the economic prosperity of our country. Certainly the protection of the home by means of life insurance and through the medium of trusts is the greatest factor contributing to the peace and happiness for the people of our great nation.

Mid-Continent Fiduciary Conference

THE second Mid-Continent Fiduciary Conference of the American Bankers Association will be held in Omaha, December 6 and 7. The conference territory includes the nineteen States of Alabama, Arkansas, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Tennessee, Texas and Wisconsin. There will be four sessions which will be held at the Fontenelle Hotel, the official headquarters of the conference.

The program will comprise topics of general fiduciary interest with open discussion of the subjects presented. Walter S. McCucas, chairman of the Board of the Commerce Trust Company, Kansas City, Missouri, and Vice-President of the Trust Company Division, American Bankers Association, will preside.



At the studio of the Universal Film Co. with a reproduction of the Cathedral of Notre Dame as a background

Lavish Entertainment at Los Angeles

THE Los Angeles convention was notable for the lavish entertainment and western hospitality, which made the fifty-second annual convention a memorable occasion for the 7000 delegates who came from all parts of the United States. Although the convention was officially in session only four days, the entertainment program, arranged by the local bankers, extended over the whole week. The visiting delegates marveled that such forethought should have been devoted to the slightest little detail so that it seemed every arrangement was carried out without a hitch.

From the Sunday, preceding the opening day of the convention, when a fleet of more than a thousand automobiles was placed at the disposal of the visitors who desired to make a tour of the city, until Bankers' Day at the Los Angeles Coliseum on Saturday when a doubleheader football game was staged, the week was replete with varied events. On Monday, there was a reception, tea and fashion show for the ladies at the Los Angeles Biltmore Hotel, while a lawn party was given in their honor on Wednesday afternoon at the Los Angeles Country Club.

A GLIMPSE behind the scenes at Hollywood, the center of the motion picture industry, was made possible when the pro-

ducing companies threw open their doors to the bankers and permitted them to watch the people of the screen as they were engaged in the making of future productions. All of the studios at Hollywood welcomed the bankers on Thursday, permitting them to view work in progress. Later the bankers assembled at the Hollywood Bowl, a vast natural amphitheater, where a barbecue was served, followed by a wild west rodeo and a band concert.

The social features were climaxed by the Grand Ball on Thursday night at the Los Angeles Shrine Auditorium, where several thousand danced to the syncopation of two orchestras that alternated in providing the rhythmic tunes. Gaily decorated in bunting and streamers, the vast dance floor presented a colorful scene.

On Friday and Saturday the Los Angeles bankers arranged all-day outings for the visitors at Catalina Island. After interurban cars had conveyed the visitors to Wilmington, the man-made harbor which serves as the seaport for Los Angeles, two large steamers transported them over twenty miles or more of the placid waters of the Pacific to Catalina, where they viewed from glass-bottom boats the famous marine gardens around the shore line of this scenic island. Course luncheons were served the guests at

the hotel before they cruised back to the home port.

On Saturday the bankers were the guests of their hosts at a double-header football game at the Coliseum, where the University of Southern California Varsity eleven played the Washington State University team after the University "Yearlings" had engaged the Loyola College "Lions" on the gridiron. As a note of welcome to the bankers, the university students formed a human dollar mark with several hundred students participating in the formation.

More than a thousand bankers accepted an invitation extended to the delegates to have the early morning meal with the Breakfast Club in the open air under the eucalyptus trees. The club, famous for its "Ham and Egg" song, is composed of prominent business men of the city.

With balmy weather prevailing, conditions were ideal for golf. Handsome prizes were awarded to the winners in the annual golf tournament, which was held on the local links on the day after the convention adjourned.

There were eighteen chairmen of the various committees appointed by the Los Angeles bankers to manage the various phases of the entertainment, which was a great success in every respect.



The lawn party at the Los Angeles Country Club

(Keystone Photo Service)

Clearing House Section

The General Adoption of a Service Charge on Unprofitable Accounts and Special Conferences of Local Clearing House Associations on Anti-Crime Campaigns Recommended. Move for the Standardization of Checks Is Making Good Progress.

THE general adoption of the service charge on unprofitable accounts in order that the extension of banking services may be placed on a more sound basis was recommended by the Clearing House Section of the American Bankers Association at the annual meeting held at Los Angeles on October 6.

Special conferences of the members of local clearing house associations throughout the country also were urged for the purpose that the banks may adopt methods that will better protect payrolls, prevent holdups and insure the speedy arrest and conviction of the guilty thugs and bank marauders.

These were two important phases covered by resolutions adopted by that arm of organized banking which has a particular jurisdiction over the development of banking practice. To further the effectiveness of the clearing house associations in all parts of the country, the Section declared that a standardization of the rules governing their operations was "most necessary."

Support of the movement for the standardization of checks, conducted by the United States Department of Commerce, which has as its purpose economy and convenience for the bankers and the general public, was pledged.

Service Charge Emphasized

ON the subject of banking economies, the following resolution was adopted:

"Bank economies and bank economics are kindred subjects, and the former as one of the questions for discussion today directs attention to other lines of Clearing House Section activities, including the related topics of analysis of accounts, budget of expenses, interest payments, service charges, etc., strict and intelligent attention to which is the duty of the members, and carries with same substantial help to the profit account. This committee desires to give special emphasis to the service charge subject. It is quite evident that no mistake has been made in the endeavor to encourage the adoption of the service charge in handling certain classes of accounts. We, therefore, earnestly commend the movement and, in connection with same, urge the consideration of more uniform rules of charges.

"It is again our duty to refer in no uncertain terms to bank examination and credit bureaus, so essential to good banking. Clearing house associations, not at this time having such departments and bureaus in operation, are urged to adopt the same. It is also regarded as essential to use every endeavor to increase the number of clearing house associations in the country, a form of organization which is adaptable to any

prevent holdups and insure the speedy arrest and conviction of guilty parties.

Standardization of clearing house rules is most necessary and must come through effective work from the membership along lines which are urged by the committee charged with the duty of obtaining results in that connection.

"This committee recommends your approval of the work of the officers during the past year in developing uniform terms and conditions for warehouse receipts."

The program brought to the attention of the Section a number of current banking problems and the views of seasoned bankers as to how they should best be solved. J. Dabney Day, president of the Citizens National Bank of Los Angeles, in treating "Some Banking Problems of Today," discussed the depletion of banking profits and the limits of safety in installment selling. Paul Shoup, vice-president of the Southern Pacific Company, revealed the tremendous diversion of the dollar from its normal course of constructive and creative use to the unproductive field of taxation. R. S. Hawes, vice-president of the First National Bank of St. Louis, discussing "Interest on Deposits," suggested, as a means of cutting down the cost of doing business, that banks deduct from net deposits before interest is paid the reserve balance that they must carry with the Federal Reserve banks.

A brief presentation on the subject of "Some Bank Economies" was made by Hal Y. Lemon, vice-president, Commerce Trust Company of Kansas City. R. H. Brunkhorst, auditor of the Harris Trust and Savings Bank, Chicago, discussed the need of instituting a sufficient set of

controls in banks. All of the speeches before this Section appear elsewhere in this issue.

There is just as much reason for the standardization of check sizes, Ray M. Hudson, chief of the division of simplified practice of the United States Department of Commerce, told the meeting as there is for standardization of our paper currency.

"All of the arguments and selling points that apply to a simplified and standardized paper currency apply in your own bank simplification program," Mr. Hudson said. "You should use them in convincing the



JOHN R. DOWNING
President Clearing House Section

town with two or more banks, regardless of population.

Clearing House Rules

"REFERENCE is made to the subject of bank protection, especially in these days of holdups, banditry, etc. The work of the committee appointed for the consideration of that subject is commended, and we earnestly recommend clearing house associations to provide for special conferences of their members for the purpose of adopting methods that will better protect payrolls,

various printers, bankers, merchants and others who may still want to have their own individual size or style of check that it will help bring about greater economy in banking operations, greater convenience, saving in clerical labor and effort, saving in errors, lost or wasted time, and even saving in paper itself if the standard sizes are adopted.

A Plea for Cooperation

"THE Committee behind this job has done a splendid piece of work. The members have put in hours of thought and study on the subject, and their efforts are before you now for final adoption and application. These recommendations, just like New Year's resolutions, don't operate themselves. Someone has to breathe the breath of life into them. Somebody has to make them work. It is only in proportion to the effort which bankers individually and collectively put behind the adoption of these standards that you can expect to get any benefit out of them.

"The first job you have is to get every member bank in the Association to adopt these standards, and even though some customer comes in who still feels that he ought to have a special size or type or style or color, convince him that he is, to use one expression, 'throwing a monkey-wrench into the gears' whenever he insists upon having that kind of individual preference. It will help the whole organization if the standard sizes are used. Once having convinced all of your members of the wisdom and value of using these standard sizes, get more and more of your customers to adopt those same standard sizes.

"The National Association of Purchasing Agents and other organizations interested in the simplification of invoice forms have now more than 60,000 subscribers on their standard forms among the business houses, the railroads and other organizations throughout the country. One of the slogans that it has adopted, because it was a party to this check simplification program, is 'Pay your simplified invoice with a standardized check.' You can tell that same kind of a story to a good many of your own customers, to use the standard check size. In doing that I am sure you will make further economies."

President Dunbar informed Mr. Hudson that standardization of forms and sizes of checks and vouchers has been in effect since last March 15.

"The leading lithographers, printers, as well as banking institutions, clearing house associations, etc., have adopted the plan and find that it works with entire satisfaction," he said. "We have had a bit of difficulty with some of our largest railroads and corporations in getting them to reduce the size of their over-size checks. For example, the New York Central Railroad had a great oversize check which showed the entire picture of the Twentieth Century Limited. Advertising on checks may be all right, but it does not seem to me to get anyone anywhere. Consequently, by correspondence, we persuaded the New York Central officials to adopt the standard sizes.

"The standard sizes are made so they will get the most out of the cuts of paper, and will save the banks millions and

millions of dollars in preparing checks.

"During one of the conferences in Washington, one banking institution submitted fourteen—just think of it!—fourteen different sized checkbooks, from a postage stamp size that it thought would be nice for the ladies to carry in their handbags, to a great oversize check, and stated that its customers demanded all those sizes. It may readily be seen what an inventory and what a stock a banking institution must carry to cater to that sort of a consideration of the customer.

"We find it very easy, very simple, but it is going to take unified effort and we must all see when we go home that our purchasing agent has on his desk the sizes and rules adopted by the standardized check movement, covering checks, vouchers and bank drafts. See that he adheres to those specifications and that your institution goes along 100 per cent for this great movement."

Raymond F. McNally, vice-president of the National Bank of Commerce of St. Louis, asked if in the process of standardization there was any chance of abolishing the voucher check with the extra flap on it.

"I would vote 'aye' to that any time," Mr. Dunbar said, "but in the consideration of the problem, we felt the best we could do would be to hold it to a standard size when folded and hope in later years to make a further step and get rid of that extra flap."

Freak Checks Eliminated

TO the inquiry of William Wicks of the Washington Park National Bank of Chicago, as to whether it was the approved idea for everyone to use the same color of paper and quality of stock, President Dunbar replied that nothing was really emphasized except the standard size. "There is one size for commercial checks, one size for pocket checks, which includes the stub, and a size for bank drafts and vouchers," he said. "The color of paper does not concern us, nor the quality of paper. But we want all the essential features for transit clerks and others handling the checks. We want those items to be on the right-hand side of the checks—the amount expressed in figures, also the signature and the transit number of the banking institution, and the clearing house. All those essential features in distributing checks ought to be on the right-hand side. We have found them, in some instances, on the back. We did not know that such freak checks existed until we went into this question carefully."

John R. Downing, vice-president of the Citizens Union National Bank of Louisville, was elected president of the Section for the next year, while O. Howard Wolfe, cashier of the Philadelphia-Girard National Bank, was named vice-president. W. F. Augustine, vice-president First and Merchants National Bank, Richmond, Va., was elected Chairman of the Executive Committee. Hal Y. Lemon, vice-president of the Commerce Trust Company of Kansas City, and James R. Leavell, vice-president of the Continental & Commercial National Bank of Chicago, were elected members of the Executive Committee.

The committee on resolutions, appointed by President Dunbar, was composed of A.

O. Wilson, vice-president of the State National Bank of St. Louis, chairman; W. D. Vincent, president of the Old National Bank & Union Trust Company of Spokane, Wash., and James Ringold, president of the United States National Bank of Denver. The committee on nominations was composed of Jerome Thralls, vice-president of the Discount Corporation of New York, chairman; Robert McEvilly, vice-president of the First National Bank of Cincinnati, and Elias Ritts, vice-president of the Butler County National Bank of Butler, Pa.

Sound Banking's Benefits

MELVIN A. TRAYLOR, the new president of the American Bankers Association told the Section that he had been interested in the Clearing House Section for more than fifteen years, and that he believed "whatever kind of banking we may have in the United States in the future will be no better than to the extent that it adopts the principles and policies of sound banking preached and all the time argued and urged by this Section.

"You are the key to sound banking practices in America," he added, "because everywhere you go you create a situation of uniformity of action and cooperation which makes for safe banking conditions. The banking of the future will be measured by its adoption and application of the work in which you are engaged. I hope and confidently expect that your work will be the answer to the demagogue and the politician who argue and preach for false and unsound economic legislation in this country with respect to banking, because if we put our house in order and keep it in order, they will be without a topic and without a subject upon which to attack banking in this country."

The Clearing House Section, Oscar Wells, the retiring president of the Association, said, represents "a cross section of all commercial banking," which is especially dealing in the technique of banking. "You are the practical economists—or rather the exponents of mathematics—and that is what banking is," he continued. "Your aim is to make all banking operations a little better, a little more correct, a little more scientific, a little more right—and that is why this Section is working upon the dissemination of credit information, upon the establishment of more bureaus for such purposes, and doing all the things in which you are engaged and which I have termed the technique of practical banking."

Widening Movement

VIRGINIA has just completed the installation of fourteen county credit bureaus, thus topping the list of all states. Committees have been appointed in Missouri, Indiana, Minnesota, Illinois, Wisconsin and Oklahoma to foster the organization of bureaus throughout their boundaries.

County credit bureaus have been set up in several other states and the movement is taking on a national scope.

As the county credit bureaus increase, the losses of banks should diminish.

New Problems for Clearing Houses

By ALEXANDER DUNBAR
Retiring President Clearing House Section

One of the Menaces to Prosperity Now Looming is the Enormous Volume of Unwise Partial Payment Buying. The Power to Check It Lies in the Hands of the Banker, Who Holds the Credit Key. Examiner System and Credit Bureau Plan Are Expanding.

INTENSELY individualistic as we must be for the successful conduct of our particular banks, we must not forget that our individual success must be complementary to success in the whole. The economic destiny of America, so intimately related to finance, will be fulfilled only when we have our eyes set on a common goal, with all working in perfect and harmonious coordination. True prosperity can never be local nor sectional. We cannot survive and progress as a great nation at the expense of or without each other.

The Clearing House Associations throughout the country are the great connecting link between the various units of American finance, and furnish a practical vehicle for consummating national financial cooperation.

They are the tie which binds, and how closely they bind is for your determination. One weak link endangers the strength of the whole.

It is a human trait that success breeds envy, whether deserved or not. American finance is in the focus of a jealous world's eye. Our strength will be unassailable only so long as we use our power with intelligence and world vision.

The Clearing House Section gives opportunity for the common exchange of our ideas, for the full exposition of our weaknesses, that they may be remedied. In short, it can be used as a shuttle which will weave the pattern of our financial fabric. Selfishness can play no part in the building of an impregnable position. Self interest must not jeopardize the strength of the structure as a whole.

Prosperity a Trying Test

PLUTARCH says, "The good pilot is apprehensive of the storm when the sea is most smiling." I commend this thought to your earnest consideration. There seems to be no cloud on the horizon, but that does not dull one's appreciation of the fact that prosperity rather than adversity is the most trying test to which a people can be subjected.

I submit that it is one of the first duties of the bankers of America to cooperate in regulating with wisdom the pronounced tendency of the people of America to use unwisely the abundant credit which is now available. I refer to the enormous volume of "unwise" partial payment buying. There is definite and proper use for partial payment buying in many directions, for the purchase of homes, the outfitting of homes, the buying of mechanical devices which pay their way and the purchase of necessities which contribute to the permanent welfare

and happiness of our people. I can see only trouble ahead if the increasing tide of credit extension is not definitely checked against the purchase of luxuries, which not only discounts earning capacity for long periods in advance, but imperils the moral fabric of the nation by pandering unjustified appetites and standards on a false basis.

I contend that if disaster, in any aspect, overtakes the people of America for their folly in over-purchasing on the time payment plan, the fault will largely be at the door of the bankers. We hold the key to the credit situation, for the bulk of time payment paper must ultimately rest in our portfolios, in some form or other. The danger is not in the use but the over use of the practice.

Who can indict the average man and woman for indulging their natural joys of possession, when the indulgence is made easy and urged upon them by lax credit regulations? Human nature is a constant factor, and so long as credit is made easy for unwise purchases, just so long will such purchases be made.

Bankers Must Be Firm

THE gravest danger is the power of over-sales persuasion on the part of production for a quick clean-up, on the erroneous theory that tomorrow will take care of itself. It must be made plain to production that America cannot live today on tomorrow's income and maintain its economic status. Left to its own devices, the common horse-sense of the average American family will correct many evils in the situation, but the bankers must help by taking a firm position.

The great growth in the savings accounts of the country, the phenomenal increase in life insurance figures, the greatly increased number of new homes and building and loan associations for their purchase, all tell me that American common sense is still in the saddle.

In all these outstanding problems of banking, finance and fellowship, the Clearing House Section has definite duties to perform.

Soon after the annual convention last fall, a conference of the officers of the Clearing House Section was held at the headquarters of the American Bankers Association and a definite campaign of outstanding importance was mapped out along the following lines:

- (a) Rendering increased service to clearing house associations.
- (b) Organization of new clearing house associations.
- (c) Encouraging the installation of the Clearing House Examiner System and Credit Bureaus in cities and counties.
- (d) Emphasizing the importance of bankers mak-

ing an analysis of accounts to determine losses and provide remedies.

(e) Requesting Secretary Herbert Hoover to call a general conference for the purpose of standardizing checks.

(f) The dissemination of information on all topics of general interest through the Clearing House Section's bulletins, the press, pamphlets and by address.

Call for Speakers Met

AS an illustration of the growing demands made on the Clearing House Section, we have had a constant call for speakers on banking problems, and we are gradually building up a speakers' list for each section of the country to supply this demand. Our officers, committeemen, state representatives, clearing house managers and examiners, generously responded to this call on their time by delivering over one hundred addresses during the year, before national, state and local banking organizations—all of which has been very helpful in the extension and development of effective bank organization work.

Twenty-two new clearing house associations were organized this year, the total number of clearing house associations in operation at this time being 389.

The clearing house associations in hundreds of towns and counties today constitute the chief line of defense against bad banking practice; they are the chief factor in bringing about reforms in banking laws, improvement in banking methods and promotion of sound banking practices. The clearing house association today is a great constructive force in American banking, and its value is no longer a matter of opinion, for the results speak eloquently for themselves.

There has been a lively interest in the organization and installation of credit bureaus as an effective means of heading off the pestiferous "duplicate borrower," who seems to thrive with the development of good roads and automobile transit facilities. The number of credit bureaus has been more than doubled during the year, both city and county types showing a splendid increase in number.

Thirty-one cities and groups of cities now enjoy the protection afforded by the Clearing House Examiner System. It is becoming more and more evident that the extension of clearing house work, including clearing house examinations, is a great forward step in the solution of the problem of protecting bank deposits. The plan has been in operation twenty years, and thoroughly tested and always found effective and successful.

At the request of the Clearing House Section, a general national conference
(Continued on page 398)

Some Problems of Banking Today

By J. DABNEY DAY

President, Citizens National Bank, Los Angeles

Placing Banking on a Sound Basis With Reasonable Profits on Invested Capital, Holding Installment Buying Within Bounds and Securing the Early Extension of the Federal Reserve Bank Charters Are Three Important Objectives To Be Reached.

MODERN business is characterized by rapid and far-reaching changes which have had the effect of greatly improving methods and systems, and of raising the general standard of living among our people. The genius of the inventor has revolutionized manufacturing methods, the art of modern salesmanship has greatly encouraged consumption, and distribution of merchandise has reached a level of efficiency never before equalled. The great improvement and efficiency of operation of our railroads and other means of transportation has also played an important part in progress. It is no longer necessary to carry heavy stocks of merchandise, and the gain made by quick turnovers is an outstanding feature of business today. We live in an age of quick transition, and as bankers we may well pause for a moment in order to survey our own situation and determine how we stand in relation to the developments that are taking place.

We may fairly ask ourselves how far banking is keeping pace with the progress made in other lines. Due to the very nature of our position in the economic structure, our tendency is to hold fast to established methods and to operate in accordance with precedent and tradition. At the same time there are certain problems that press for solution, and we may be obliged to adopt some of the aggressive methods so profitably employed by our friends engaged in other activities.

Three Major Problems

AMONG the banking problems of today there are three of such outstanding importance as to deserve our most careful attention. One of these is the cost of doing business, the ratio between the interest we receive and the interest we pay, and the resulting question of maintaining reasonable profits upon invested capital and the building up of adequate reserves. The second is of equal importance and concerns the spread of installment buying, while the third is the preservation of the Federal Reserve System.

Two of these problems are allied, for without the Federal Reserve System banks would be deprived of the valuable privileges of rediscounting the issuing acceptances, both of which are factors in reckoning our earnings.

The maintenance of banking profits has caused concern during very recent years to banking executives throughout the country. During the World War, and for some time after its close, we were able to

send to Europe a large portion of our surplus at non-competitive prices. Now, however, the people of Europe are producing in a much larger measure, and we are obliged to meet severe competition in price, both in Europe itself, and in world trade as well.

By reason of unusual conditions which existed when Europe was at arms, causing an exceptionally large demand for banking funds, a unique situation was created here, in which it was very easy to show satisfactory banking profits; but now we must face changed conditions. The price of some of our major commodities has dropped below the cost of production, and it is not easy to dispose of our goods to such advantage. Today the success of a bank depends upon efficient and effectual operation, rather than upon abnormal conditions.

In order that banking may continue to make proper progress, and to expand sufficiently to take care of the needs of a growing country, new capital from time to time must be sought. Unless a reasonable return upon the investment can be assured, this will not be forthcoming, and it is, therefore, of first importance that we should thoroughly investigate the situation.

Some of the underlying causes for the decreasing ratio of earnings may be briefly summarized as follows: (1) The immense sums of money that have been seeking profitable investment since the war. One result of the struggle was to transfer ownership of large blocks of our securities from Europe to this country, in addition to which we have had a very heavy balance of trade in our favor, resulting in an increased gold supply. A further factor in the situation has been the heavy earnings of successful industrial and business operations during the past several years, which has added to the pressure of capital seeking investment. This excess of loanable funds has had the effect of depressing interest rates. (2) Notwithstanding the lower rates of interest obtainable on loans and investments, there has not been a corresponding downward revision of the rates of interest paid upon term and savings deposits, while, on the other hand, there has been a tendency to yield to the pressure brought to bear upon us to increase the number of commercial accounts bearing interest. (3) The increased cost of doing business, including the payment of higher taxes, larger salaries and many other items which make up the expense account. Not least among the increased burdens is the cost of protection from the alarming crime wave we are experiencing. Guards, armored cars and in-

surance all contribute to reduce the balance of the profit account. (4) Competition is another factor which has added to bank expenses, for in self-defense many banks find it necessary to engage in costly efforts to retain their business. In some cases there is no doubt that the speed limit has been exceeded by institutions anxious to acquire, at any cost, large totals. (5) Unprofitable business adds to our cost. Analyses made by many banks of their accounts disclose the startling information that the greater number of checking accounts are too small to be self-sustaining. Other accounts, though apparently satisfactory, have too much float or uncollected balances, and again there are many services rendered by banks for which no compensation is received.

Some Remedies Proposed

THESE and other factors are contributing to the depletion of banking profits. It is obvious that a solution of our problem is not easy to find, but, on the other hand, we should not dismiss so important a question as being insoluble. In our national, state and local banking groups there is a consensus of opinion that something should be done to remedy existing conditions under which many banks are operating at a disadvantage in respect to earnings, as compared with other business. Our salvation lies in sincere cooperation, each group facing its own particular problems, and loyally supporting cooperative endeavor for the best interests of all.

May I tell you how we in Los Angeles worked out one problem? For years the local banks were burdened with the necessity of spending large sums of money for advertising in programs, novelties and publications with nominal circulations, for purchase of tickets and contributions to all manner of organizations, and for other similar demands. One bank was played against another. All kinds of influence were brought to bear in favor of particular projects, of which the promoter was often the largest beneficiary. No opportunity existed for investigation. To meet this situation, the Los Angeles Clearing House Association organized a committee which now examines all proposals for advertising, or requests for donations, employing a professional investigator. Genuine advertising projects are referred to the banks for individual action, and genuine requests for charity are given consideration, and if found worthy receive a donation which is pro-rated among the banks. The result of this work has been the saving to Los Angeles banks during the

(Continued on page 396)

The Mounting Cost of Deposits

By R. S. HAWES

Vice-President, First National Bank, St. Louis, Mo.

Interest on Deposits Consumes Over One-Third of Every Dollar of Bank Income. While Money Rates Have Declined, Interest Rates Have Risen. Bankers Should Deduct From Net Deposits Before Interest Is Paid the Reserve Balance They Must Carry.

THE principal expense item in the banker's budget today is interest on deposits. This item has increased by leaps and bounds during the past few decades until today it consumes over one-third of every dollar of bank income. It has become an expense item of such importance that it is not only making serious inroads upon the return on invested capital in the banking business, but is also becoming a factor which may lead to the undermining in some sections of the country of the soundness of our banking structure.

Many bankers in their efforts to meet competitive conditions and to maintain established rates on deposits are being practically forced into high yield paper where the credit risk is unduly burdensome. As a consequence, neither the interests of the depositor nor of the banker are being intelligently served by some existing practices with respect to the payment of interest on deposits. Established rates and methods of calculating interest payments are largely an inheritance from the past when conditions were quite different from those that exist today. American banking and the American money market have undergone a profound change in the past twenty years and especially since the establishment of the Federal Reserve System.

Must Revise Practices

THESE changes call for a thorough revision, among other things, of existing bank practice with respect to the payment of interest on deposits. New problems have come upon the banking fraternity so gradually that many bankers have failed to appreciate their true significance and the necessity for taking concerted action to meet them before serious damage has been done.

Post-war developments in the field of finance, together with the operations of our improved banking system, have exerted important influences upon both bank policy and loaning rates. The bankers, who should be keen to recognize and appreciate those fundamental changes, have up to the present time failed to take any definite action to meet new conditions. The situation has now reached a point where definite concerted action must be taken at the earliest possible moment to protect effectually the interests of all concerned—namely, the depositing public and our institutions of banking.

As we see the problem there are three phases that call for consideration. First, a careful analysis should be made of the facts regarding the generally established policy of payment of interest on deposits;



Change Needed

BANKING practice with respect to the method of paying interest on deposits is rather illogical insofar as it ignores reserve requirements. It would appear that a logical step for the bankers to take would be to apply the same rule to the demand deposits of their customers that the banking laws of the country require of them—namely to deduct from net deposits before interest is paid the reserve balance that they must carry with the Federal Reserve.

second, the effects of the existing situation should be studied in all of their ramifications, and third, consideration should be given to some of the means by which the problem might be solved so as to satisfactorily protect the vital interest of all concerned.

With respect to the first aspect of the problem—namely, the facts regarding the situation, there is at present only a limited amount of information available. It is something of an anomaly that the bankers, who are constantly calling upon their customers to make careful analyses of their operating costs and expenditures and to establish budgetary control so as to eliminate inefficient and unsound methods, should be among the last important group to apply the same principles that they advocate for their customers to their own line of business.

In recent years, the Federal Reserve System has been making studies of bank income and expenditures which should prove very helpful to the banking fraternity. These studies have uncovered some astounding facts regarding the banking business, especially with respect to the trend of costs

in banking. They show, among other things, that for the fiscal year, ending June 30, 1921, the gross income of all member banks was \$1,829,671,000 and that for the calendar year, 1925, gross income was \$1,918,094,000, an increase of only \$88,423,000 during a four-year period of expanding business. On the other hand, interest paid on deposits by the member banks rose from \$472,003,000 to \$643,158,000, an increase of \$171,155,000, or almost double the increase in gross income. On a percentage basis, interest being paid on deposits rose from 25.8 per cent to 33.5 per cent of gross income. Every banker has long known that interest on deposits was rising out of proportion to income. These figures show definitely how far out of proportion the rise has gone.

Larger Interest Payments

WHILE the Federal Reserve figures are aggregates for all member banks, they, nevertheless, present a picture that is substantially true of what has been actually taking place, and every banker, if he studies his own situation will find it substantially in accord. Unfortunately, Federal Reserve figures are obtainable for only recent years. While it is true that 1921 and the period since was unusual in many respects, the same principle holds true for the period since 1919, the earliest for which information of this type is available. Summing up the essential factors regarding the growth of interest payments in contrast with other bank items, the following are outstanding:

Interest on deposits has increased since 1919 65.2 per cent.

Gross deposits have increased since 1919 40.5 per cent.

Total resources have increased since 1919 41.3 per cent.

All expenses except interest on deposits have increased since 1919 48.5 per cent.

The result of this situation, as would be expected, fell heavily upon the return earned on the invested capital in the banking business. In 1919, earnings were equivalent to 10.6 per cent on capital and surplus, whereas last year they amounted to but 8.92 per cent and for the period, 1922 to 1925, they averaged less than 8 per cent. In other words, the average rate of return on invested capital shows a drop of over 20 per cent during this period.

It should be recalled in this connection that this occurred during a period that was generally prosperous in practically all other business and commercial lines. Furthermore, it must not be forgotten that in dealing with averages covering a great number

of banks, allowances must be made. In recent years some of the larger banks, whose ability to affect the averages would be considerable, have organized investment companies for the purpose of engaging in underwriting industrial, public utility, railroad and real estate mortgage loans. This has proven a profitable field in many cases and has done much to augment earnings for such institutions, so that the showing for many institutions would be considerably less favorable than the averages indicate.

Interest Rates Decline

THE mounting cost of deposits assumes an even more serious aspect when we take into consideration the decline in interest rates in recent years. For example, if the average commercial paper rate for 1919 is taken as index 100, we find the average rate for 1925 to be index 74.3, a decline of almost 25 per cent in the average rate obtained on this class of paper. Similarly, the bond yield rate shows a drop to index 89.9, a decline of over 10 per cent in the average rate secured on this type of investment. On the other hand, the average rate of interest paid on gross deposits by all member banks increased from an average of 1.84 per cent in 1919 to an average of 2 per cent for last year, which is equivalent to an increase of over 8 per cent in the amount of interest being paid on gross deposits.

The significance of this rise in the rate paid on deposits during a period of declining money rates cannot be over-emphasized. Thus, from whatever angle the problem is approached, the facts show an unfavorable trend to the course of interest paid on deposits, as contrasted with other items of expense or income. In view of these facts the outlook is not encouraging unless the far-seeing bankers of the country get together and make an effort to correct the situation, so as to bring into closer accord the cost of money to the rate which the banker can obtain for it in the market.

With respect to the second aspect—namely, the effects of this situation, the facts speak for themselves. Deposits are to the banker what raw materials are to the manufacturer. They are the banker's principal stock in trade. The banker, no more than the business man, can pay an ever and ever higher price for his raw material, pay higher wages, meet increased costs in every field, and steadily sell the finished product, bank credit, at a lower price. Yet this is what the banker has been attempting to do. That he has met with difficulty is not surprising.

The effects of this situation are the same in the field of banking as in other lines—namely, compelling the banker to take chances and to indulge in practices that sound business judgment does not warrant, with the inevitable result that bank failures have become more numerous. With lower rates and increased costs, the banker cannot afford to assume the same credit risk that he could under other conditions. However, in his effort to meet competitive conditions he is often forced to accept risks out of all proportion to either the needs of business or the interests of his depositors. The existence of such circumstances obviously produces an unwholesome situation.

With respect to the third aspect—namely, some of the means by which the problem might be solved, the following proposal appears to deserve consideration. Banking practice with respect to the method of paying interest on deposits is rather illogical insofar as it ignores reserve requirements. Today, under the workings of our Federal Reserve law, a definite proportion of bank reserves are non-earning assets. Years ago when interest was being paid on only a relatively small proportion of all demand deposits, the burden of the loss entailed on non-earning assets could be absorbed more easily than today when the practice has become very general. Furthermore, before the establishment of the Federal Reserve System all reserves were not non-earning assets to the same extent that they are today.

It would appear that a logical step for the bankers to take would be to apply the same rule to the demand deposits of their customers that the banking laws of the country require of them—namely, to deduct from net deposits before interest is paid the reserve balance that they must carry with the Federal Reserve. While it is true that the same ultimate result could be accomplished by a general lowering of interest rates paid on deposits, such a change would still leave the banker in the position, technically at least, of paying interest on funds not actually available for investment. A more logical method, before attempting to scale down the rate of interest being paid, would be to apply to the deposit item the same requirements that the laws of the country place upon the banks.

This should not be as difficult a proposition as would appear at first thought. Those banks that have an analysis department in which commercial accounts are studied to determine whether they are profitable or not already utilize this principle and have been educating their customers in this respect. In such analysis, allowance for reserve requirements is made and when the customer's

account is not self-supporting all the facts are laid before him and he is shown the various costs involved in maintaining his account, among which the reserve requirements are included. He is then usually given the choice of either increasing his balance or making payment in some other way for the service rendered. Where these methods have been used, business men have been quick to appreciate the requirements of the banker and little difficulty should be experienced in widening the application of this principle.

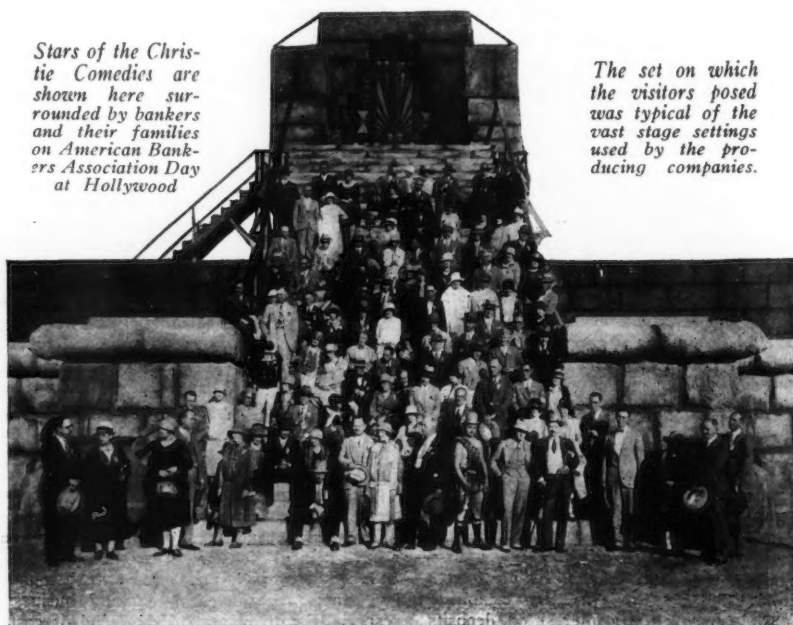
A 10 Per Cent Cut

WHILE there is no way of definitely determining the exact amount of saving that might be made by the bankers paying interest only on that portion of deposits that is available for investment, it is quite apparent from the data now at hand that the sum would be very substantial and, on the average, would probably approximate in the neighborhood of 10 per cent of the total amount now being paid. Such a policy would apparently save the member banks of the Federal Reserve System approximately \$50,000,000 annually, a sum which would give considerable relief in more ways than one, not only in improving earnings but in eliminating the necessity on the part of bankers to assume undue credit risks and thus jeopardize the vital interests of depositors.

This proposal of deducting from the deposit item the reserve requirements before calculating the interest payment is admittedly not the only means by which this important problem can be solved. It is offered primarily as a concrete constructive suggestion for meeting a problem that calls for definite action in the near future. Much will have been accomplished toward the final solution of this vexing problem if the bankers of the country can be aroused with respect to its significance. If they will give it the thought, study, and attention that it deserves, we can look forward with confidence.

Stars of the Christie Comedies are shown here surrounded by bankers and their families on American Bankers Association Day at Hollywood

The set on which the visitors posed was typical of the vast stage settings used by the producing companies.



The Useful Dollar

By PAUL SHOUP

Executive Vice-President, Southern Pacific Co., San Francisco

It Is Kept in Action Only by the Thought of Man. Wealth Should Be Creative, Constructive and Useful. Diversion of Dollar From Normal Path Is Most Destructive Force at Work. Tax Contribution Is Out of Proportion to National Income.

"AND he gave it for his opinion, that whoever could make two ears of corn, or two blades of grass, to grow upon a spot of ground where only one grew before, would deserve better of mankind, and do more essential service to his country than the whole race of politicians put together."

IT may be that Jonathan Swift was not altogether fair to our statesmen. Yet for two centuries his expression of the need of mankind for constructive activity has remained unequaled. It is not the purpose to arrive at any conclusion in the discussion of this subject, the dollar in useful action. The trained economists of the world are at work constantly trying to decide what is the useful dollar, and with wide variance in their methods and in their views. All I may hope to do is to present to you a few pictures of the dollar in action. And to my mind the most useful dollar is that which is in accord with Swift's definition of the most useful man.

The Will to Create

WE talk of labor and capital as separate units in our economic life. These definitions doubtless serve their purpose in the division as between the power given a man in his own person and that given him through control over outside possessions. A man as a slave was part of the capital of his possessor; as a free man he represents the power and dignity of independent labor. Yet capital has not creative value except as given to it by energy, mental and physical, of man. Back of it all, then, capital or labor, is the will of man to create. The progress of the world, its constructive activity in every field, its advance in art, in science, in literature, in every field of industry, rest upon this one thing, the maintenance of the will to create.

When we lessen the incentive, when by extraneous forces we make achievement impossible, or by over-burdening restraints we weaken this will to create, then no longer will the "two ears of corn or two blades of grass be made to grow upon a spot of ground where only one grew before."

For the human mind is the center of our universe. In it individually must germinate the thought that makes for all new activity; no matter to what extent changed, enlarged upon or directed subsequently through the collective action of many minds. And this thought so born of individual initiative going forth into the world is the creative cause in all human progress.

Whether this creative conception is from the mind of a Fulton, with as a result the unnumbered crafts upon the waters of the

earth moving under their own power, or of a Whitney making practical the clothing in cotton of a large part of the civilized world, or of an Edison to the end that the night may be made as light as the day, or of a Langley or Wright so that man may grow wings, or of a Bell or Marconi that distance may be eliminated in hearing, or of a Ford and associates in the industry who has set a nation in motion, or any of the thousands upon thousands of constructive minds that have put forth projects taking the treasures from the depths of the earth, reclaiming vast arid spaces for the use of man, spanning the continents with webs of steel, turning forests into the habitations of people, indeed all these innumerable constructive thoughts since the beginning have been essential to all the progress made in this world. And each came in origin from the thought of a single mind.

Dollar's Sustaining Aid

NOW, when the idea goes forth and it has been molded by many minds into useful form, then that it may add to the health and happiness and comfort of the people, it must have the sustaining aid of the useful dollar. This useful dollar is in itself but a measure. It helps carry the thought through to its destination. It gives wings to wealth that it may be both used and increased. It is an expression of credit given to the enterprise that has taken form and substance from that thought—a method and a measure of projecting the power of the accumulated treasures of the world, whatever they may be, whether in goods or chattels, coin, lands, the fruits, or what not, to the uttermost recesses of the earth, to the end that there shall be created something more to add to the comfort and happiness of its inhabitants. The dollar is but a symbol of measure for wealth in action; and it is kept in action only by the thought of man.

Now this thought may be creative, constructive and useful, and then we have the useful dollar. It may be wasteful or destructive, or both, and then we have the dollar that destroys not only itself but others. Or it may take on only the activity of interfering with the "making of two ears of corn or two blades of grass to grow upon a spot where only one grew before," way-laying the constructive dollar upon its journey, destroying its purpose and the credit it is given for that purpose.

It must be obvious that the useful dollar, as I am defining it, must be largely one that aids in creation. But it is obvious that nothing

has real value until it reaches the point of use and serves a human want. So we find involved in the problem of creation not only the growing of the ears of corn or the blades of grass, or whatever else it may be, but the transportation to the person who is in need of them. Material human progress is made through the increase of wealth in the variety of its forms as well as in its volume, and also in its efficient distribution where it will best meet human needs and serve the newly awakened desires that may be looked upon as progressive steps in human life. As cave men we were content with little; the changes in our material environment have in a very considerable measure at least gone hand in hand with our spiritual and intellectual advance. So our useful dollar not only creates wealth in volume and variety as it goes, but carries on that wealth to the point of use.

Let us, if we can, illustrate a situation where there is no longer any such thing as the creative dollar, that is, no thought made useful by the active dollar in the creation of new forms of wealth. Let us suppose that the world exists upon automobiles and that that is its only industry. Whatever the measure might be in which the employees were paid, it must in the end represent automobiles. It might be that there would be different makes of automobiles and the employees would not all receive the same return for their labor, but in the end all that they could possibly get would be the wealth represented by the automobiles created. Thus a stalemate would be created. With the automobile market surfeited, employment would immediately cease. Thrift in the use of automobiles would not be of service in the ultimate outcome. So our useful dollar must, as the hand-maiden of thought, make possible not only additional wealth, but new forms of wealth; and as well keep up the processes necessary to replace wealth destroyed in service.

Must Aid Production

SO we find the useful dollar must be so directed by the physical and mental energies of man as will create the power increasingly to buy through increasing the power to sell, and to keep employed all the people all the time in productive activities as far as possible. You cannot trade with your neighbor, no matter what you have, if he has nothing to exchange, and your possessions, beyond the extent to which you can personally use them, with nothing in reach to exchange them for, become of no account.

And now to the point of this discussion, the imperative need of keeping the dollar creative and useful. Not only is this backing of credit carried by the dollar necessary to enable thought to create wealth, but in this work time is an element. The dollar representing wealth in itself inert cannot go to sleep by the wayside any more than a man can and still create something. It cannot go off on side excursions and wander aimlessly, engaging in destructive or constructive enterprises, or no enterprises at all, and gain the most useful results. If it be waylaid and destroyed, and by this I mean the credit it carries, the harmful effect becomes readily apparent.

Before dealing briefly with some of the adverse conditions that make the dollar less useful, or of no use at all, let us look at the cheerful side of the picture that we may have some idea of how useful it has been made, as represented by the accumulation of wealth, especially in the last few years; the agent of human thought, which has multiplied productive possibilities many fold in every avenue of human activity. The savings of the people of our country in savings banks and other institutions, as measured by dollars, are impressive—40,000,000 depositors out of a population of 115,000,000, an average deposit of \$600 each, \$24,000,000,000 in savings, something less than half in savings banks and the balance in other financial institutions. Or look upon those wonderful creative enterprises—the building and loan associations with 8,000,000 stockholders, more than 1/15 of our entire population, with \$4,000,000,000 invested, or \$500 for each investor. Or look upon the thrift and care as evidenced by our life insurance companies, who have in ordinary and industrial insurance more than 93,000,000 policies written—almost one for every inhabitant of the country—amounting to more than \$50,000,000,000. The people of the United States are investing (for life and other personal insurance is an investment) around \$2,000,000,000 per annum. The number of stockholders in corporations has increased wonderfully in the last ten years. More than 15,000,000 of our citizens are now stockholders in various corporations. It is probable that in these figures as to the number interested there are duplications, so that the actual number is considerably less. Yet these are impressive indeed, especially compared with the small number and relatively smaller investment of a quarter of a century ago.

All of these evidences of wealth, all of the \$350,000,000,000 of values given now as the wealth of the United States, are but the results of the creative thought of people moving through the agency of the useful dollar. The advances in science, the advances in education of men and women through these new powers given us, the greatest economic use of forces at our command through centralization, transmission and coordination of activities—all these have been great factors in the last quarter of a century in adding to the great wealth of the country. The situation may be illustrated by referring to the power we now have at our command as expressed in our water-created electric power, in coal and in oil.

In a quarter of a century the power derived from oil has increased eight fold,

that of coal has doubled, and that of electric current derived from water power nine or ten fold. The great advance in agriculture has resulted in seventeen years in an increase in the corn, cotton and wheat crops—the great staples of our country—of 50 per cent or more. There has never been a time when the forces intrusted to us gave us greater possibilities for the creation of wealth. Employment has never been more general. It is estimated that there are 42,000,000 people in the country now engaged in gainful occupations. So much by way of illustration of the results accomplished through the agency of the useful dollar.

The Barren Dollar

BUT look at the other side. The dollar is useful only as the mind of man made it so; the destruction of useful initiative must be necessarily destructive to its useful work. It is wise to search then for some of the forces that interfere or destroy the work of the useful dollar and, of vital importance, destroy at the same time the initiative so necessary to the creation of wealth. Many dollars are sent off on wild-cat chases, never to return. Many are left by the wayside, buried in enterprises that were not well considered. Bankers also have some measure of the dollars practically employed. They are well aware also of the troubles that speculation brings in its train—the dollar on a joy ride.

But to me one of the most important activities that needs watching is the forced and constantly increasing diversion of the dollar from the path it normally travels under the initiative of its ownership to another path; and that is to and through the public treasury by taxation. This diversion is most destructive of all to initiative. The people collectively, under the form of their government, take from one of their number by force of law his dollar and devote it to their collective uses. This we call taxation. He has no effective voice in that situation. He can only hope that something will be left him. According to the Department of Agriculture in 1922, 86 per cent of the net income of the farmers of the United States went to taxation. What encouragement is there in this for constructive initiative to "make two ears of corn or two blades of grass to grow upon a spot where only one grew before"? In 1900 the railways of the United States paid in taxes one-tenth of their net income; in 1924, one-third. The railroad with which I am associated had to pay substantially the same amount in taxes last year as it was able out of its remaining earnings to pay as dividends to its stockholders. In the United States the average tax per family paid to all forms of government is now \$400 annually. In California, which is not different from many other states, our bonded debt has increased fifteen fold in the last sixteen years. Our counties have multiplied their debts seven and a half times, and the debts for cities are three times as great and constantly growing. Some time this debt of \$650,000,000 will have to be paid, but a more serious difficulty faces us in its constant growth. The taxes paid in the United States represent an annual contribution of 3 per cent upon the value of all the property in this country.

I recognize fully the greater number of community activities that have had to come under the form of government with the growth of population, particularly in cities, and the closer associations, political, social and business, among our people. But we find that our tax contributions, the number of dollars diverted from their normal course for taxation purposes, have been for many years past increasing out of proportion to the growth of the saved wealth of the nation, and out of proportion to the national income. I am familiar with the argument offered that many of these collective activities are constructive in nature and to a greater or less extent self-supporting; but examining the tax rates per capita, or tax rates versus the actual wealth of the communities, we find that those cities going most far afield in these activities are, as a rule, the most burdened with taxation. It is not necessary to name them specifically, but the record is readily at hand. Bankers also know what an incentive the tax-exempt provision has been to the people collectively to vote these appropriations from the pockets of their neighbors for state, county and municipal activities in the form of mortgaging their properties against future payments. And they know how terrific would be the protest were the millions counted up and then the appropriate part allocated directly as a lien upon each individual property. The process of manufacturing tax-exempt securities in connection with business enterprises of government is a method of shouldering over upon remaining individual initiative and enterprise an added burden of government. An examination of the uses to which taxes collected in California have been put shows how far extended has become the field of government activities. Of course we cannot confine ourselves to the original main purpose of government which was, and I use the subdivision exactly as it is expressed in our classification of uses of tax monies, "the protection of life and property." Today just 8 per cent of our tax levies go to serve that useful end. In this state, in the first seven months of this year, something more than 20 per cent of all securities issued were tax exempt, that is, of so-called municipal nature.

Let me suggest the desirability of a more intelligent study of the consequences of the increasing diversion of the useful dollar from the pocket of the individual to the collective uses of his neighbor's under the guise of government. And this dollar, so diverted, no longer the possession of individual constructive thought, loses its creative character. And any one of us could find in public causes—superficially at least—admirable occasions to spend all the wealth created in any city and, if we failed to look behind us, never know that ruin and destruction had encompassed the city as a result of our efforts. That has been the fault of tax makers of all ages. They have been either too ignorant or too vicious to recognize and be governed by the effects upon those from whom they propose to gather the taxes and measure these as against the causes upon which they propose to spend them.

The welfare of the world depends upon constructive thought originating in the individual mind, and the dollar is its messenger to a creative end.

The Bank Auditor of Today

By R. H. BRUNKHORST
Auditor, Harris Trust and Savings Bank, Chicago, Ill.

He Exercises Control of Policy and Guards Against Mistakes In Methods, Keeping the Executives in Touch With the Details of Operation. Controller System Used in the Larger Banks May Be Applied to Any Institution, Regardless of Its Size.

IN banking we have three dignitaries whose duties are so closely related, in fact so interwoven, that one cannot operate without the other two and any one of the three can prevent the other two from functioning properly. I refer to the accountant, the auditor and the comptroller.

I wish that all three positions were abolished and a new one created, that of controller. In some of the banks the work of the three has been combined and is carried on by one man having a misnomer of auditor.

I say misnomer because the old theory of an auditor being the head of a department principally to check the work of others, to disclose their errors and report them to some authoritative head, is obsolete. The present day so-called auditor does very little checking. You might better classify him as the head of a department of examination and controls. He is the direct representative of the board of directors and its committees, is responsible to them and reports only to them.

Has Control of Policy

HE examines with authority the operations of every department, of every officer and employee, verifies assets in their custody, reporting directly to the board or its committees and receiving in return their instructions as to procedure. In this manner he exercises control of policy, of systems and methods, guards against a mistaken or unwise policy, against improper functioning of department or individual, controls the safeguarding of assets and accounts; insures the receipt of income and the correctness of disbursements. In other words, he keeps the executive bodies in touch with the details of operation whereby they may intelligently and competently carry out the policies of administration, of organization, of operation and the delegation of authority.

It is true that the proper sphere for the controller is the larger bank, yet many of the theories and methods used by him can be applied to any institution regardless of size. Every institution should use the continuous check at least to a degree to insure the receipt of income and the correctness of disbursements. Any institution can apply the theory of substitution by changing the duties of employees in charge of cash and securities. Any institution can get verifications of balances and securities from customers. Every institution should install the automatic control made possible by segregating cash and securities from record keeping. Any institution can get an addi-

tional check on its income and disbursements by comparisons and any institution can prevent dangerous combinations of duties.

No bank should rely entirely upon examinations by appointed forces nor should it rely entirely upon examinations made by its own forces. An examination is a verification of assets upon a given day. It shows that the totals on hand agree with the records, it indicates the solvency or insolvency of your institution as per books. It does not vouch for the correctness of your records, it is not a verification of your income, it does not assure you of the accuracy of your disbursements, and in many cases it has little or nothing to do with the sincerity of your assets. An examination is satisfactory only when combined with an adequate set of controls.

To establish another side of this situation, let me first quote from a publication of a well known accounting firm:

"'Catch the thief' is a cry one expects to hear issuing from the throats of a mob pursuing a common pickpocket through the city streets. It might almost be adopted by public accountants as a slogan to guide them in the daily work.

"Some sage has observed that facts are stubborn things. The facts with regard to embezzlements are that they are increasing alarmingly in number, amounts involved and in the cleverness with which they are perpetrated. The causes underlying the increase might have certain interest to social reformers, but no point in connection herewith. Business men, fidelity companies, and accountants are confronted rather with effects."

Removing Temptation

EXAMINATION deals with effects. It practically eliminates causes in that it removes temptation. Ordinarily I might resent being classified as a social reformer but if eliminating causes of crime places me in that class so mote it be.

Psychologists tell us that everyone who handles funds or securities belonging to others is tempted at one time or other. Four out of five persons are prevented from lapse by strength of character, or by fear. The fifth, encouraged by opportunity, driven by need, prompted by the lure of speculation, the demands of extravagant living, or otherwise motivated takes the chance, foolishly hoping to hide his misdoings under a cloak of secrecy, enrolling in that rapidly increasing army known as embezzlers.

Am I right in assuming that controls strengthen character, increase fear and re-

move temptation? All of you owe it to yourselves, your stockholders and your employees to institute a sufficient set of controls in your institutions.

Back in 1923, several groups of so-called auditors, realizing that the general status of the auditor was not what it should be, organized for the purpose of perfecting themselves in their particular line of endeavor and raising the level to which the auditor had been consigned. Meetings were held, plans and ideas were compared, systems and methods were informally discussed and thefts and defalcations were reported so that measures could be taken to prevent similar happenings in other institutions.

Organization Under Way

THE efforts of these groups were called to the attention of the officials of the A. B. A. and they, realizing the possibilities of the work being done, appointed a committee operating under the Clearing House Section for the purpose of regularity, organizing these and other groups and bringing them under the supervision of the A. B. A.

At the Atlantic City Convention in 1925 the committee reported twenty-three organizations in operation and at this time there are twenty-nine—twenty-six city, one county and two state organizations, all spreading propaganda of adequate control, efficient methods, cooperation with the examining forces and the like.

We have spent two years laying a foundation for our work and we are about ready to make our program national. We ask that you consider examinations and control as a subject for your state and city organization programs; we ask that you submit your control problems to a member of our committee, known as the Committee on Bank Auditor's Conferences. We ask that you assist in forming an organization where none exists and if you come from a city where an organization is operating, give us your support and attend our meetings.

New Members

DURING the past year, a total of 826 banks were added to the membership of the American Bankers Association. In three states—Florida, Louisiana and Nevada—there is a 100 per cent membership in the Association.

At the close of the fiscal year on August 31, there were 21,252 banks in good standing.

"Too Many Banks, Too Few Bankers"

By ROY L. BONE

State Bank Commissioner of Kansas

WE have but two outstanding problems in the Kansas banking department—"Too many banks and too few bankers." All of our other problems are merely offsprings and if we can find a solution for these two problems it will automatically solve a large percentage of the others.

Too many banks is the direct result of the somewhat reckless and indiscriminate granting of charters in years gone by. Men, with little or no banking experience and with no knowledge of credits, were granted charters and they organized banks more for the purpose of providing a job for themselves and a convenient place to borrow than with any thought of serving a banking need in the community or paying the stockholder a reasonable return on his investment. These are the men who are responsible for the large number of problems which come into the Bank Commissioner's office and if we are going to solve these problems, we need to make it more difficult for such men to get into the banking business.

The reason I say we have too many banks is because many of them have not sufficient volume of business to enable them to operate at a profit. We have 1250 banks in Kansas, 1000 of which are state banks. Of these 1000 state banks, more than three-fourths have under \$300,000 in deposits and over half under \$150,000 in deposits and seventy-five under \$50,000 in deposits. Fifty per cent of our state banks are not on a dividend paying basis and many are not even making expenses, to say nothing of earning sufficient to absorb losses; and when unusual losses do occur it means an assessment or suspension.

A SURVEY of bank suspensions during 1924 and 1925, made by the Federal Reserve Board, the result of which appeared in an article in the April number of the Federal Reserve Bulletin, showed that the largest number of failures occurred in the western and middle western states where an overbanked condition exists and where there was one bank for from 1500 to 2900 of population as against one bank to 7300 of population in the New England states where few failures occurred. In Kansas we have one bank for every 1440 of our population.

In a speech before the Kansas Bankers Association in Wichita last May, I suggested consolidation as a remedy for this overbanked condition in my own state, a larger volume of business with little if any increase in overhead expense. I might say in passing that a great many of our smaller banks accepted this suggestion and so far this year we have been able to work out eighteen consolidations and have as many more that we are working on at present.

Now the other problem. When I say "too few bankers" what I really mean is too many incompetent bankers and when we reduce the number of banks by consolidation or otherwise, we naturally eliminate a few incompetent bankers, but this is, of course, a slow process.

Unlike the first problem the charter board is not altogether responsible for the incompetent banker. In considering applications for bank charters, our charter board has certain discretionary powers in determining the need for a bank in the community, also the financial standing and character of the applicant, but we need more latitude in passing on the fitness of the applicant for the position of managing officer of the bank.

Before an attorney can begin the practice of law he must take an examination before a board of examiners and unless he proves himself qualified he can not practice. The same is true of the physician, the engineer, the architect, the electrician, the plumber; in fact of almost every line wherein the public's interests are concerned, excepting the banker. Then why should not he be required to take some such examination? I am not prepared to say just how this can be worked out but I do believe that before a man is permitted to engage in the banking business, he should be required to pass some sort of an examination which would determine his fitness for the position of managing officer of a bank. Unless a man is a fairly good judge of human nature and has the ability to pass on credits and has the backbone to say "No!" occasionally, or I might say frequently, he has no business lending other people's money.

I HAVE thought that the legislature might clothe the banking board, or some

other body, with sufficient authority to examine applicants for bank charters, but there are many objections to such a procedure. However, it does seem to me that the man who asks to be entrusted with the funds of a community should, by some means or other, show that he is qualified to assume such a responsibility.

I realize that what I have in mind may be a long way off and that there are many obstacles in the way. The American people demand and insist upon having a great deal of freedom of action and there is such a thing as undertaking to carry supervision too far, therefore, one needs to make haste slowly in a matter of this kind.

But we never get anywhere unless we make a start, so in spite of this I think the matter is worthy of a trial and unless I have good reason for changing my mind I am going to ask our next legislature at least to broaden the power now vested in our charter board so that in addition to considering the need for a new bank in a community, it can also pass upon the applicant's qualifications for the position of managing officer. I would not recommend a technical examination.

While we all know that a college education is greatly to be desired and a most valuable asset; at the same time we know also that some of our best bankers are men who have had little if any schooling. The sort of examination I would suggest would be one conducted along practical lines, for I believe that a board comprised of three or five well-seasoned bankers could, after an hour's examination, come to a pretty definite conclusion as to whether or not the applicant has the qualifications of a banker. The banker is responsible for the condition of his note case. The note case is the foundation rock on which our banks rest.



"Our Gang" at the Hal Roach studio poses with a visiting group of bankers and their families

State Secretaries Section

Vigilante System Is Now in Operation in Seven States with Armed forces Totaling 20,000 Men. Reduced Insurance Rate Compensates for the Trouble and Expense of Organization. Bureaus of Identification Are Functioning in Seven States.

THE vigilante method of safeguarding banks was discussed at the meeting of the State Secretaries Section in Los Angeles. There are vigilante organizations in successful operation in seven states, with a total force of 20,000 armed men.

W. G. Coapman of Wisconsin reported that his state was the seventh to organize, having adopted the plan followed in Illinois. W. W. Bowman of Iowa said that in his state 3800 vigilantes had been operating for a year and a half, and the crime situation has been cleaned up satisfactorily. He declared that the better insurance rate now enjoyed in Iowa was compensation enough for the trouble and expense of organizing the vigilantes.

Eugene P. Gum, President of the Section, said that it had been his observation that if a state were not particularly troubled by bank robbers, and the insurance rate had not been increased, it would be preferable to wait until a condition justifying such action arose before attempting to organize a vigilante body.

Identification Bureaus

JAMES E. BAUM, manager of the Protective Department of the American Bankers Association, said that the vigilante system had done a "wonderful good," and he praised especially the organization of state bureaus of criminal identification and investigation. He urged the adoption of this plan in a great many states. Inquiring as to the cost of organizing vigilantes, he was informed by Mr. Gum that the expense of forming a body of from 2500 to 3500 men would be from \$30,000 to \$50,000. This cost, Mr. Gum explained, was borne in each state by the State Bankers Association, through the county units.

Mr. Gum, in his presidential address, noted our widespread prosperity but urged the secretaries to watch for signs of over-expansion of credit and production.

The Section heard addresses by M. A. Graettinger, the secretary of the Illinois Bankers Association, on "County Unit Credit Bureaus"; Miss Forba McDaniel, secretary of the Indiana Bankers Association, on "County Unit Protective Plan," and Peter W. Goebel, the president of the Lib-

erty National Bank, Kansas City, Mo., on "The Rising Cost of Doing Business and Its Correction." All of these are printed elsewhere in this issue.

Frank J. Wikoff, of Oklahoma City, told the secretaries of a recent tour he made of Europe and of his impressions. He was convinced that much of the trouble in France over that country's debt to the United States was due to the fact that the French people

high in Germany because they have lately stabilized their currency, and that process necessarily makes things temporarily, at least, quite high. They are high, indeed, in Switzerland also, while they were very cheap in France.

"France is having a very serious problem. It need not have been. It is because they didn't have the courage to face things just as they were. They were still living in a fool's paradise, and their government was willing that they should continue rather than break the sad news to them that there was only one way, and that was to tax themselves, balance their budget, pay their debt, and get square with the world. They have to do it, of course, and I suppose, sooner or later, they will do it. Meantime they are not going to have the right mental attitude toward the people of the United States.

America Their Hope

"I THINK one of the reasons that the Germans are prospering is because they are paying an indemnity. When a nation pays an indemnity it will get up a tremendous momentum of energy and industry, and it will continue to prosper. On the other hand, a nation that gets an indemnity and continually expects one and expects it to continue is apt to become slothful and possibly go into decadence. That is one of the things that appears to me to be the trouble in France. They have concluded that Germany was going to pay all the expenses that they had been put to, and this was all going to come back to them. They are sitting down, enjoying life, expecting and waiting for that great flood of wealth to come over their country that Germany is to pay, and it will never come. In the very nature of things, it cannot.

"Just in general observation I want to say, after I have seen Europe, America is the hope of the world. The envious eyes of all Europe are turned toward us, and a very large part of the attitude they bear toward us is due to envy."

The Section adopted a motion providing that the Committee on Program, in arranging for next year's meeting in Houston, Tex., give preference on the program to secretarial work and round-table discussion over set speeches.

(Continued on page 388)



HARRY G. SMITH

President State Secretaries Section

were led to believe by their government that the money advanced to that nation was a gift by American millionaires, and they cannot understand now why the Americans want their "gift" back.

"We observed that the attitude of the Germans toward us was rather better than that of any other of the people of the nations we visited," said Mr. Wikoff. "Whether it is sincere or not, it appears to be. They are very courteous, very anxious to be well thought of by the Americans and very accommodating. Things are

Cutting the Cost of Doing Business

By PETER W. GOEBEL

President, Liberty National Bank, Kansas City, Mo.

Service Now Offered Free by Keenly-Competing Banks Might Be Made to Produce Revenue Through Cooperation. Interest on Credits on Outgoing Drafts Another Way of Adding to Net Profits. Service Charge the Best Remedy for Checking Abuse.

THE reasons for the increase in the cost of doing business may be assigned to the following:

The tremendous increase in the number of banks in the United States from 1900 to 1920—from 10,000 banks in 1900 to 30,000 in 1920, which has resulted in very greatly increased competition and the offering of a tremendous amount of free service.

Higher wage levels and the necessity of a greater percentage in the number of employees as compared with the increase in deposits.

The great increase in time deposits.

The very much greater cost of building construction and rents.

A continually increasing amount of free deposits on which interest is paid.

Increased taxes and greatly increased fixed charges.

Increase of losses.

The Federal Reserve Board has made quite an exhaustive analysis of the earnings of the member banks of the Federal Reserve districts, and I believe that this analysis can be safely adopted for the entire banking system, as the greatest number of members of the Federal Reserve banks are banks with capitals of \$100,000 and under, and I am inclined to think that the increase of business and increase of cost of operation are about the same in the smaller state banks not members as those of the smaller national banks who are members.

Expense Mounting Rapidly

WE find the gross income, which in 1919 was \$1,290,000,000 for all member banks, has increased in 1925 to \$1,843,900,000, and the total expense account increased for the same period from \$876,600,000 to \$1,320,960,000, which shows an increase in the gross income of 42 plus per cent and in the gross amount of expense of 50 plus per cent. This is before taking care of losses, which increased as follows:

1919	80,056,000
1920	129,000,000
1921	216,000,000
1922	213,000,000
1923	148,600,000
1924	141,234,000
1925	144,500,000

This shows an average loss since 1920 of \$165,608,000, or an increase over 1919 of \$85,552,000 yearly, or a percentage of 106.

The net profit for 1919 was \$334,320,000 and net for 1925 was \$378,400,000, which is an increase of \$44,080,000, or about 13 per cent, while the increase in the gross income was 42 plus per cent.

Interest on borrowed money was reduced from \$75,166,000 to \$19,866,000, a decrease of \$56,300,000, or 73 per cent.

We further find that interest paid on deposits increased in the same period from \$389,185,000 to \$625,368,000, an increase of 60 per cent. While the payment of interest on deposits has increased enormously, the average rate on commercial paper decreased from 5.42 per cent to 4.30 per cent, and the bond yield was reduced from 5.25 per cent to 4.72 per cent, and, of course, the reduction in earnings was largely due to this decrease when there was no corresponding increase in the payment of interest on deposits.

All other expenses increased from \$487,425,000 to \$695,597,000, an increase of 40.6 per cent. Salaries and wages increased from \$195,196,000 to \$362,128,000, an increase of 85.5 per cent.

Time and Demand Deposits

THERE has always been in my mind the supposition that time deposits cost less to handle than demand deposits, and that the ratio of expense in a bank carrying a large amount of time deposits would be less than in a bank having but few time deposits. We find in an analysis made by the Federal Reserve Bank of Boston for District No. 1 that the percentage of current expenses in banks having no time deposits was less than 60 per cent, whereas those which had 75 per cent time deposits had a current expense of 73 per cent of their gross earnings including interest. However, a somewhat similar investigation by the Federal Reserve Bank in New York shows that the banks holding the larger proportion of time deposits have larger ratios of net earnings to capital funds than those having a smaller amount of time deposits.

During the six years we are discussing, deposits increased from \$22,807,000,000 to \$32,420,000,000, or 42.1 per cent; but here we find the astonishing fact that demand deposits only increased 28.3 per cent and time deposits increased 139 per cent, which, of course, accounts for the enormous increase in the interest paid on deposits.

From the above figures we find that the gross income has increased enormously, but the gross expenses and loss accounts have increased more.

We may now review some of the things that, in my opinion, have made for this large increase in the gross and comparatively small increase in the net profit.

I would put in the first place the enormous abuse of checking. I do not believe

I make an over-statement when I state that at least 35 per cent of the checking accounts result in a loss to the bank.

Service Charge the Remedy

OF course an adequate service charge will remedy this to a considerable extent, and I am glad that most bankers are putting in such a charge. However, in most cases it is inadequate, and I hope the general view of banks on this subject will soon change, so sufficient charges to cover at least a part of the extra expense of taking care of these accounts may be made.

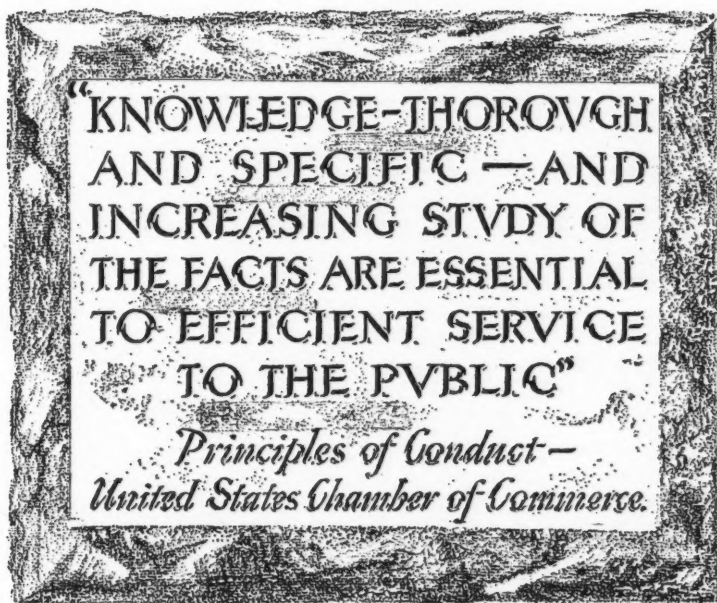
I feel quite sure that a very large part of the increase in expense accounts can be reduced, but each banker must work out his own problems. If he can get the cooperation of his competitive banks, it will be much easier, but it must be done with or without such cooperation. Take the unprofitable account. I do not know what would be an unprofitable account in the other bank, but I can find out by proper analysis what would be an unprofitable account for the banks with which I am connected. After you have decided upon the smallest average balance you can profitably carry, notify every depositor whose average balance is below that sum that on a specified date, at least three months in the future, you will require the average minimum balance to be maintained or a service charge will be assessed. I do not know what this service charge should be. Each bank must determine that for itself. Then try to get the cooperation of the competitive banks in fixing the amount. I know fifty cents is not enough—perhaps a dollar per month may cover the loss to some extent.

Educate your customers to understand that your plan is reasonable, fair and just. That this can be done has been proved in many cities. Do not let anyone persuade you that it cannot be done. The number of accounts that you will lose will be large, but analysis will show you that every one of those you lose will add to your net profit. The public certainly will not volunteer the proper compensation for the service you render, but I firmly believe you can educate the great majority to see the justice of paying a reasonable amount for service. The American people generally do not ask for gifts.

Free Service Too Extensive

IWOULD put the free service rendered by banks as the second reason for the small increase in net profit. Banks have

(Continued on page 399)



IN no other business is accurate and thorough knowledge more necessary and important than in the business of providing investors with safe securities. The responsibility of the investment house, therefore, is great. Its sources of data must be dependable; its facilities for securing facts must be well-organized; its experience must be sufficiently broad to enable it to measure and appraise the relative value of pertinent information. The knowledge thus obtained—when combined with an extensive knowledge of the requirements of banks, institutions and individuals—forms the background of an efficient investment banking service.

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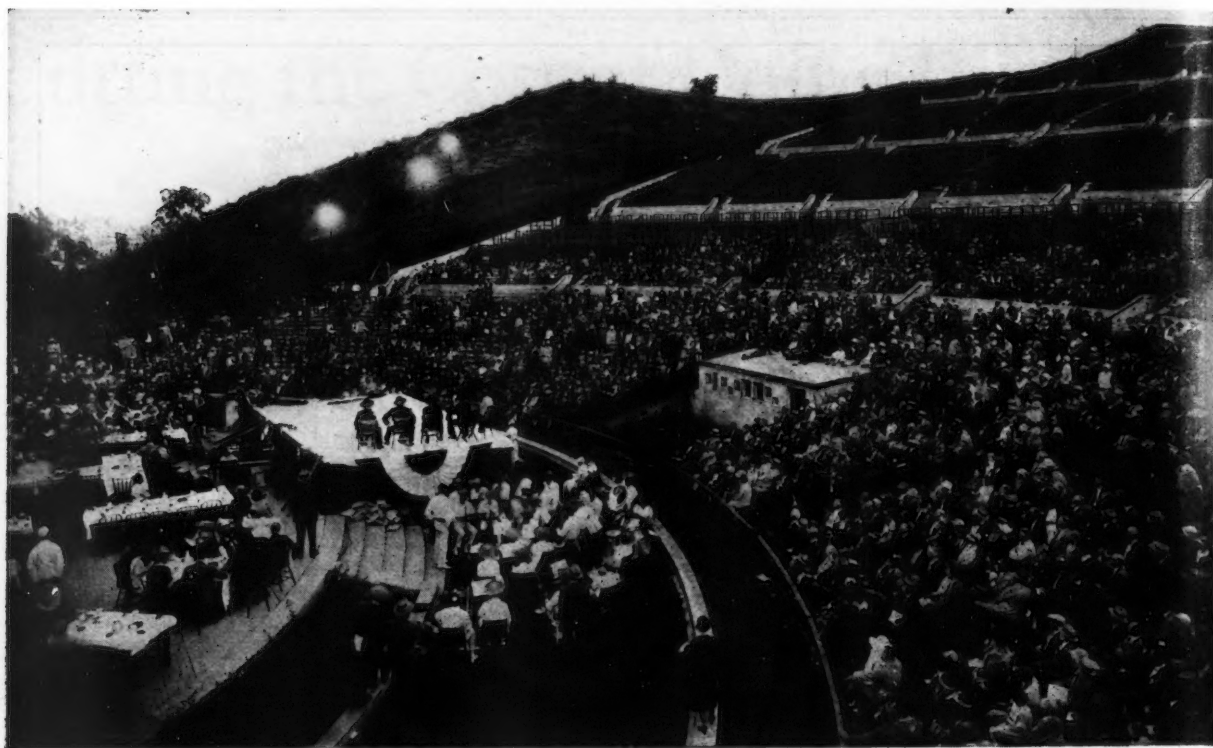
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After the Barbecue in the Hollywood Bowl

Convention Humor

Bits in the Lighter Vein of the Addresses to the Bankers at Los Angeles

THERE has been a great deal of talk about human liberty. There is a question of how far the individual has the right to do this or that. I always like that definition of human rights that was given by the man who was arguing about this question of liberty. One man said to another, "I have the right to shake my fist in your face any time I want to." The other man said, "That is right, but your right to shake your fist in my face ends exactly where my nose begins."—*Dr. Ray Lyman Wilbur, president of Leland-Stanford University.*

A CHECKING account was formerly an indication of merit. It is so no longer because of the great number of checks that have to be returned. You remember when Nate Nixnoox asked Abe Kabibble, "Have you received my check?" Abe replied, "Yes, twice; once from you and once from the bank."—*Peter W. Goebel, president of the Liberty National Bank, Kansas City, Mo.*

THERE was a stuttering banker who had an application for a loan, or at least a visitor, who was well known to be poor pay and who asked the stuttering banker, "How do banks make loans?" This hard-headed, practical old banker, of whom the American Bankers Association has many, said, "Why, we make loans on c-c-c-collateral; we make loans on m-m-mortgages; we make loans on endorsement." The visitor asked, "How could I borrow some money?"

The practical banker replied, "You would have to be b-b-born again."—*Oscar Wells, president of the First National Bank, Birmingham, Ala.*

WHEN, just before I began to speak, I saw the attendant reinforce a large pitcher of drinking water with another and with a larger number of glasses, I thought possibly he had heard of the true story which emanated from the sometimes rather dry and uninteresting proceedings in the Supreme Court of California, a little incident which happened two years ago in the courtroom in San Francisco on a warm afternoon and which brought a smile to the seven members of the court and for a moment almost disrupted our proceedings.

The first case called was answered "Ready," by a gentleman who arose somewhat ostentatiously in the corner of the room, advanced more ostentatiously and somewhat noisily to the front, unfolded his briefs and papers noisily on the reading desk and, bowing to the Chief Justice, said, "How much time have I, your Honor?"

Mr. Justice Meyers, then the Chief Justice, in a tone of voice which anyone who knew him could readily understand, said, "Well, the rules allow an hour to a side." We, who knew the Chief got the implication that he hoped the gentleman would not consume the entire hour.


He said, "Thank you, Your Honor," and poured out and drank to the dregs a glass

of water. He talked for five minutes, by which time the members of the Supreme Court had realized why the gentleman had lost his case in the court below. He said, "Pardon me," and drank a second glass of water. He proceeded again in his peculiar style of argument and oratory for five minutes more and said, "Excuse me, your Honor," and drank a third glass of water.

By that time the seven gentlemen on the bench knew why he was going to lose his case in the Supreme Court. He continued for another five or six minutes and said, "I think I have finished," poured himself the fourth glass of water and sat down.

Mr. Justice Richards of my court, then sitting at the extreme end, next to me—very scholarly, very dignified, very classical—took his pencil and wrote on the pad and slipped it along to me, and I to the other members of the court. You will understand the smile when I tell you that Judge Richards had written, "That was a most wonderful example of a windmill run by water."—*William Harrison Waste, Chief Justice of the Supreme Court of California.*

AFTER having gone to Washington in the interests of the McFadden bill, I feel somewhat in the position of the disabled soldier who had no arms and who was taken to lunch by a Scotchman. The disabled soldier had to grab the check between his teeth when they left the table.—*J. S. Macdonnell, president of the First National Bank, Pasadena, Cal.*



The Hand of a Great Service

Americans who have traveled much in foreign lands will tell you that there is no more welcome sight to a troubled traveler than a courier of American Express.

Intelligent, efficient, courteous, inspiring confidence, bringing relief—American Express couriers are the embodiment of the helpful, personal Service they represent—the Travel Service of American Express Company.

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The Debate on the McFadden Bill

To End Deadlock in Congress and Obtain Relief for National Banks, American Bankers Association, After Lengthy Debate, Recommends that National Banks Be Permitted to Have Home City Branches in All States Permitting State Banks to Do So.

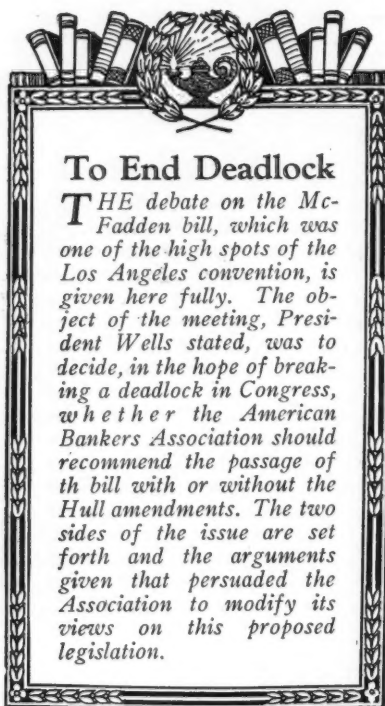
DURING the convention of the American Bankers Association at Los Angeles an extra session was held for the sole purpose of considering the position that the Association should take with respect to those provisions of the McFadden bill, now pending before Congress, which impose certain restrictions on branch banking.

It had become evident at the meeting of the State Bank Division and the National Bank Division, held on the first day, that more time would be required for a thoroughgoing, extended consideration of the points in controversy centering around the so-called Hull amendments than the regular program could allot to this subject, so, on the motion of Melvin A. Traylor, First Vice-President of the Association, the convention voted to hold a special session on the night of October 5 to determine whether the American Bankers Association would recommend to Congress that the McFadden bill be passed with, or without, the provisions embraced in the so-called Hull amendments.

Order of Procedure

IN opening the special session, President Oscar Wells announced that an agreement had been reached by the leaders of the two sides as to the procedure that should be followed. In the interest of time, harmony and orderly procedure, he said that the proponents and opponents of the so-called Hull amendments had proposed that three hours should be devoted to the debate, the time to be evenly divided and the speakers to be selected by the leaders of the two groups. He announced that he had appointed E. N. Baty, Secretary of the Cook County Bankers Association of Chicago, and W. J. Rathje, president of the Michigan City Trust & Savings Bank of Chicago, who had been prominent among the advocates of the Hull amendments, to apportion the time on this side, and had named H. H. McKee, president of the Capitol National Bank of Washington, D. C., and W. C. Wilkinson, president of the Merchants and Farmers National Bank of Charlotte, N. C., to control the time of those who maintained that Congress should not grant rights and privileges to national banks in twenty-two states and deny these, under the same limitations, to national banks in the other twenty-six states.

Outlining the agreement as to the procedure, President Wells suggested that it be formally approved by the convention. This done, the special meeting proceeded to debate the question, which was not the issue of branch banking—because the merits or demerits of this question were not under consideration—but whether or not the



American Bankers Association should recommend the passage of the McFadden bill with or without the provisions commonly known as the Hull amendments.

What the Hull Amendments Would Have Done

THE Hull amendments, which figured so prominently in the debate, and so called because they were sponsored in Congress by Representative Morton D. Hull of Illinois, were three in number. The McFadden bill, as originally introduced in Congress, provided that national banks, in states where state-chartered banks were empowered to have branch banks, might establish one home city branch in towns of between 25,000 and 50,000, and two branches in cities between 50,000 and 100,000.

The main Hull amendment limited the right of national banks to have home city branches to those states, which "at the time of the approval of this act" by law or regulation authorized their own banks to have branches.

A second stipulated that state banks, before being allowed to join the Federal Reserve system, should relinquish branches that had been established outside of the municipalities, and any branches set up after

the passage of the Act in any state which did not permit branches at the time of the approval of the McFadden bill.

A third amendment declared that no Federal Reserve member bank should be permitted to establish a home city branch in any state which did not at the time of the passage of the Act sanction branch banking. Furthermore, it was provided that a state bank, upon converting into a national, could not retain any branches established after the approval of the Act in any state, which did not at the time of the approval permit branch banking.

(Some of the speakers in the debate referred to the Hull provisions in the singular, others in the plural. In the following report the language of each speaker is followed.)

To bring the question clearly before the meeting, Mr. McKee, the first speaker, offered the resolution, which had been adopted by the National Bank Division at its session on the day before. It was as follows:

"RESOLVED, That in view of the existing legislative situation, the National Bank Division of the American Bankers Association urges the convention of the American Bankers Association, in session now at Los Angeles, Cal., to recommend to Congress the final enactment of the so-called McFadden National Bank Bill, H. R. No. 2, including the provision rechartering the Federal Reserve banks, at the coming session, with the following restrictions upon branch banking:

"First, that no national bank be permitted in any state to establish a branch beyond the corporate limits of the municipality in which the bank is situated; second, that no national bank be permitted to establish a home city branch in any state which does not at the time of such establishment permit the state banks to establish branches; third, that no state bank be permitted to enter or to retain membership in the Federal Reserve system if it has in operation any branch which may have been established after the enactment of H.R. No. 2 beyond the corporate limits of the municipality in which the bank is situated; fourth, that no branches which may have been established after the enactment of H.R. No. 2 beyond the corporate limits of the municipality in which the parent bank is situated, be permitted to be retained when the state bank converts into or consolidates with the national bank, or when two or more national banks consolidate."

Mr. McKee Opens Debate

AFTER the motion had been duly made and seconded that the resolution be adopted, Mr. McKee addressed the convention as follows:

Irving Bank and Trust Company

NEW YORK

Statement of Condition, September 30, 1926

RESOURCES

Cash in Vault and with Federal Reserve Bank	\$42,239,607.29
Exchanges for Clearing House and due from other Banks	79,709,882.68
Call Loans, Commercial Paper and Loans eligible for Re-discount with Federal Reserve Bank	87,095,715.83
United States Obligations	23,145,486.25
Short Term Securities	43,312,530.39
Loans due on demand and within 30 days	71,677,929.88
Loans due 30 to 90 days	41,081,060.15
Loans due 90 to 180 days	34,239,421.14
Loans due after 180 days	4,138,944.39
Customers' Liability for Acceptances (anticipated \$2,025,119.99)	21,778,709.65
New York City Mortgages and Other Investments	9,310,613.37
Bank Buildings	648,416.16
	<u>\$458,378,317.18</u>

LIABILITIES

Deposits	\$351,805,498.41
Official Checks	44,592,394.07
Acceptances (including Acceptances to Create Dollar Exchange)	23,803,829.64
Discount Collected but not Earned	938,932.75
Reserve for Taxes, Interest, etc.	2,242,369.64
Dividend payable October 1, 1926	612,500.00
Capital Stock	18,500,000.00
Surplus and Undivided Profits	15,882,792.67
	<u>\$458,378,317.18</u>

"It is understood that the three-hour period of time is to be allotted equally to the proponents and the opponents of this resolution. Ninety minutes will be under my control which I can yield at my pleasure to other speakers. The other ninety minutes will be under the control of Mr. Baty, and he can yield that to his speakers.

"Now you will observe particularly the second paragraph of the resolution that I have read:

"That no national bank be permitted to establish a home city branch in any state which does not at the time of such establishment permit the state banks to establish branches."

"If you adopt this resolution, after the debate has closed, it is to be distinctly understood that you have voted against the Hull amendment, and I hope before the vote is taken that that will be stated by the Chair very clearly.

"The McFadden National Banking Bill, which was passed by the Senate and the House of Representatives and has been in the committee of conference on the disagreeing votes of the two houses, is being held up by a misunderstanding between the Senate and the House of Representatives upon one single point, that one point is what is known as the Hull amendment. The Senate has refused to accept that amendment. The House of Representatives has instructed its conferees that they must not under any circumstances relinquish that amendment, so that due to a deadlock the bill cannot be taken back to either branch of Congress and enacted into law, and if that deadlock is not broken before the present Congress adjourns on March 4, 1927, all of the legislation is lost.

The Hull Amendment

"It may be pertinent at this time to tell you what our conception of this Hull amendment is. When the McFadden Bill was introduced in the 68th Congress, one of its sections provided that national banks might have home city branches to a limited extent in those states that authorized their state banks to have branches. When that bill was before the House Banking and Currency Committee, two representatives of a group of state banks in the outlying sections of Chicago appeared in Washington and asked the Comptroller of the Currency and Mr. McFadden, the Chairman of the House Banking and Currency Committee, to recommend an amendment to the bill that would confine home city branch banking by national banks to those states that authorize their state banks to have branches at the time of the approval of the act.

"Nothing was said by these gentlemen about prohibiting state member banks of the Federal Reserve System to have branches if their states changed their laws hereafter. The Comptroller of the Currency and Mr. McFadden declined to entertain that proposition on the ground that it would not be fair to national banks. Then it was enlarged to include state bank members of the Federal Reserve System.

"The proponents of the Hull amendment then went before the Illinois Bankers Association, several other state organizations and secured their approval of that amendment. They brought it before the conven-

tion of the American Bankers Association in Chicago in 1924 and secured the approval of the convention there to the McFadden Bill with the Hull amendment.

"Later on, when the bill was brought up on the floor of the House in the 68th Congress, Morton Hull, a Representative in Congress from Illinois, introduced his resolution and it was adopted by the House with the other branch bank provisions of the bill. That bill failed to pass the 68th Congress, however, because of the short time the Senate had to consider it, due to the usual congestion of legislation in the closing days of Congress.

"The identical bill as passed in the 68th Congress, with very few changes, was introduced in the first session of the 69th Congress, and was passed with a very large majority vote by the House of Representatives. It then went to the Senate Banking and Currency Committee, and that committee appointed a sub-committee, consisting of Senator Pepper of Pennsylvania, Senator Edge of New Jersey and Senator Glass of Virginia, to hold hearings on the bill. A large number of bankers from all over the country appeared at those hearings and were able to convince the Senate sub-committee that the bill was desirable in every respect except as to the Hull amendment.

Senator Glass Opposes

"SENATOR GLASS was opposed to the Hull amendment. Every banker who appeared at that hearing was asked by him, 'Do you believe it is fair and just to grant a privilege to national banks in twenty-two states under certain conditions and limitations, and deny the same privilege under the identical conditions and limitations to national banks in twenty-six states that do not authorize branch banking at this time?' Every banker who was asked that question replied 'no' except two. The two exceptions were representatives of the Cook County (Illinois) Bankers Association, who attempted to defend the Hull amendment, with the assertion that its purpose is to discourage national banks from uniting with state banks in non-branch banking states, and inducing the state legislatures to change their laws so as to provide for branch banking in those states that do not authorize branch banking at this time.

"Senator Glass asked these gentlemen if they thought such a law was constitutional, if they thought it was right and fair, and they admitted that the necessities of the case compelled them to say that the law was desirable in order to discourage the further extension of branch banking into those states that do not authorize it at this time.

"However, the sub-committee of the Senate Banking and Currency Committee did not accept that view of those proponents of the Hull amendment. The full Senate Banking and Currency Committee refused to accept that view. The bill was taken into the Senate and three distinct attempts were then made to have the Hull amendment restored to the legislation, each one of which was defeated, the last time by the decisive vote of 60 to 17, after the Hull amendment had been segregated at the request of Senator LaFollette from the rest of the bill.

"So that while the Hull amendment has been voted on specifically as a separate

proposition in the Senate of the United States, and turned down absolutely, it has not been segregated from the bill in the House and voted on as a separate proposition in the House of Representatives.

"The House of Representatives seems to have taken the action it did because the American Bankers Association endorsed the Hull amendment as part of the McFadden bill. Many representatives in the House settled the question in their own minds in the light of local or domestic interests. The Senate, however, attempted to settle the proposition in the light of a broad national policy that will give equal rights to all of the national banks which this legislation is intended to affect.

"The objection of the Senate to the Hull amendment is based on the theory that all laws passed by the Congress of the United States in this great republic must bear with equal weight upon all whom they are intended to affect, and, furthermore, that every citizen in these United States, no matter what his condition, is entitled to equal protection of the law. The Senate says that the Hull amendment is discriminatory, that it gives an advantage to national banks under certain conditions in one location and refuses to give a similar advantage to other national banks in another location under the same conditions.

Is Law Constitutional?

"SOME members of Congress, some distinguished Senators and some able lawyers have said that such a law is unconstitutional. Let us leave out of the question the constitutionality of the law, because lawyers always differ. That is why we have courts. Let us look at the law from the standpoint of the spirit of laws that should be passed in this great republic. We must remember that our country is a democracy within a republic. The people in each state have the inalienable rights to determine their own domestic policy, to pass such laws through their legislature as they believe are necessary to control their own affairs without interference from any other sovereign power, whether that power be another state or the super-sovereign, the United States.

"These gentlemen, who are opposed to the Hull amendment, say it violates that fundamental principle of the spirit of laws that should be passed by a republic where the liberties of the people rest in the forty-eight sovereign states and no one state has a right to interfere with the rights or prerogatives of the citizens of any other state.

"Banking depends for its existence upon industry and commerce. Industry and commerce could exist and get along to some degree if we did not have banks, but without industry and commerce the banks would not exist one minute. Let us see what the business men of this country have said about this McFadden bill and the Hull amendment. The United States Chamber of Commerce has approved the McFadden bill with its provision granting limited branch banking to national banks in all states that authorize their domestic corporations to have branches, whether that law is in existence or whether it be passed at some future date.

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"The great National Association of Credit Men, composed of over 30,000 of the leading business houses in the United States, has taken the same stand. The Secretary of the Treasury, the Federal Reserve Board and the Comptroller of the Currency wrote to the chairman of the House Banking and Currency Committee, when the bill was under discussion last June in the House of Representatives, and recommended it be enacted without the Hull amendment. I concede that these distinguished gentlemen, and the members of these great business organizations, are qualified by knowledge and experience to know something about the spirit of laws that should be passed in this great country of ours.

"It is said that the Hull amendment will prevent the extension of state-wide branch banking. I confess that I cannot see how that can be possible. Let us assume that this dispute over the Hull amendment kills the entire legislation, and that there is no legislation on the subject of branch banking by Congress. One of the provisions in the McFadden bill restricts the further extension of state-wide branch banking by state organizations that are members of the Federal Reserve System. If this bill is killed, we lose the valuable protection of Section 9. On the other hand, if the national banks are not authorized in existing or other branch banking states that may be created in the future to take advantage to a limited extent of branch banking laws, what are they going to do? They are not going to see their business destroyed by competition they can overcome by leaving the national system, taking out state charters and getting the relief under state laws that have been denied to them as national banks. Many large national banks in this country have already done that, and we all know that there are many others that have that in contemplation, if the legislation does not pass at this next session of Congress.

Federal Reserve Affected

"**T**HUS, there will begin a disintegration of the national banking system. If that happens, what is going to happen to the Federal Reserve System? We cannot have a Federal Reserve System in this country that is not based upon the compulsory membership of national banks that are under the sole and supreme authority of the Federal government, that can make them contribute the capital and the assets to that great system to make it function.

"It is to be remembered there are 16,000 eligible state, commercial banks and trust companies in the United States that could become members of the Federal Reserve System, but up to this time only about 10 per cent, or 1600, furnishing a minority of the capital and assets of the system, have become members; so if we lose any large number of national banks through unequal competition with the state banks, it is going to be a very serious blow to our Federal Reserve System.

"It has been stated that the proposition to give national banks a limited branch banking privilege in cities is going to start state-wide branch banking. The proposition embodied in the McFadden bill is to give national banks located in cities with

a population of from 25,000 to 50,000 one branch only; in cities with a population of from 50,000 to 100,000, two branches, and in cities with a population of over 100,000, an unlimited number of branches, subject, however, to the approval of the Comptroller of the Currency, who will have authority to examine into banking conditions there and find out whether the proposed branches are needed, and whether they can be run profitably and serviceably for the people.

"If you will consult the census of 1920 you will find in the twenty-six non-branch banking states, those states that have no branch banking at this time, but some of which may pass a branch banking law later on, that there are 9142 incorporated cities, towns and villages. Of that number there are only fifty-four with a population of from 25,000 to 50,000. There are only twenty-seven with a population of from 50,000 to 100,000. There are only twenty-three with a population in excess of 100,000, or, in other words, out of this total of 9142 incorporated cities, towns and villages under the McFadden bill without the Hull amendment, home city branch banking could be conducted in only 104 cities, leaving 9038 incorporated cities, towns and villages in these twenty-six states where such kind of branch banking by national banks could never take place.

"Do you mean to tell me that if this limited privilege, which is almost a right, is granted to the national banks, it is going to mean the extension of branch banking out into the agricultural districts of the country, out into the smaller cities, towns and villages, when 9038 will never under any circumstances be called to pass upon the question of home city branch banking by a national bank?

National Banks Need Aid

"**T**HE national banks are up against a stone wall. For ten years they have been trying to get relief from the narrow restrictions of a law that was passed in 1863 and amended infrequently since that time, so that they are not in a condition now to render the service necessary to meet the needs of modern business. Are you going to turn down this request that they bring to you? They cannot go to Congress directly. The state banks which derive their charter powers from the state legislatures, through their state banking associations, can go directly to that source of power, but we, the national banks, who derive our power from the Federal government, by the rules of this Association, have to submit to you every proposition involving a change in the statutory law that governs the operation of national banks.

"I ask you, after the explanation that I have made of the Hull amendment which is simply an effort on the part of a group of state banks in Illinois to use the power of the Federal government to intervene in a purely hypothetical, local situation that ought to come under the control and is under the control of their state legislature whether you are for or against such a proposition. The state bankers in Illinois should be the last ones to ask protection from the Federal government against their state legislature on a question like this, because the constitution of the state of Illinois

provides that no banking law can be changed or amended by the legislature without a referendum to the people. Such an attempt was made in 1924, and it was defeated, so that these state bankers have no cause to fear. Then, too, in the state of Illinois, as in many other states, the state banks outnumber the national banks very largely. In the state of Illinois they outnumber the national banks seven to one. The state of New Jersey, to my knowledge, is the only one where there are more national banks than there are state banks.

"When the members of the Senate Banking and Currency Committee found out that the purpose of the Hull amendment is to use the power of the Federal Congress to intervene in a situation in Illinois, to protect a group of small banks in the outlying sections of Chicago from what they feared their state legislatures might do, they declined to accept it. They said, 'You are asking us to legislate against something that does not exist. It is an academic proposition. It is not concrete or practical, because there is nothing substantial to it. You fear that at some future time your legislature may change its mind, and you ask us to pass this law to protect you from your legislature.' They said, 'It is not the function of Congress to interfere directly or indirectly with the rights of the people of any one of the sovereign states, to pass any kind of a law that they need or deem advisable to manage their purely local or domestic affairs!'

"Therefore, I implore you, I beg you to vote in favor of this resolution."

For Their Retention

MR. BATY made the opening address for those urging the retention of the Hull amendment. He said:

"Mr. McKee has explained to you all about the Hull amendment. We think there are just a few points we would prefer to explain a bit differently than he has explained them. I do not know but what the first thing that we should mention is a denial of Mr. McKee's implication that we are disinterested in the welfare of our national banks; decidedly we are not, and it is not, as Mr. McKee says, a plea of the national banks of this country for relief. We are just as much interested in the national banks of this country as Mr. McKee. We are just as much interested as any of the opponents of the Hull amendment. That is not a fair basis to put this controversy on. The Hull amendment is not supported just by a few small insignificant state banks in the outlying district of Chicago. You might have gathered that from what Mr. McKee told you.

"I have here tonight just a few of the many, many pledges of endorsement to the Hull amendments from national banks in every section of this country. The first letter is from the president of the largest national bank in the state of Indiana pledging us his support. I do not know where the letter is; it is in here somewhere, but we also have a pledge—"

MEMBER (interrupting): "Read it!"

MR. BATY: "It is as follows:

"This will introduce to you Mr. Gwynn F. Patterson, vice-president of this bank. Mr. Patterson like myself is opposed to

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branch banking in any form and will represent me at any meeting you may have at the A. B. A. convention."

"I want to read another letter from the gentleman, answering the inquiry from the rear of the hall. This is addressed to myself and says: 'I have just received your letter in this afternoon's mail. I shall be pleased to serve as a member of the Committee of One Hundred. We have a law in Indiana which prohibits branch banking. I am against branch banking in any form. I am not going to the A. B. A. convention in Los Angeles. Our bank will be represented,' and so forth.

"The president of Iowa's largest bank, Homer Miller; the Iowa National Bank of Davenport; Commercial National Bank of Waterloo; Joplin National Bank of Joplin; First National Bank of York, Pa.; president of the First National Bank of Janesville, Wis.—these are just the letters we have here. We have hundreds more just like them in Chicago.

"I just mention those letters in order that the statement that those who advocate the Hull amendments do not heed the plea and the cry of the national banks that they be given relief, might be cleared.

House for Hull Amendments

"THERE is just one other statement that I wish to make now, and that is in answer to Mr. McKee's statement that the House has never taken a definite stand on the Hull amendments and that the Senate has taken that definite stand, and said, 'We will not have the Hull amendments.'

"A close perusal of the Congressional Records and reports of the various hearings held in Washington, especially copies of the Record, will disclose that the House of Representatives, upon three occasions, has said in a very positive manner, 'You must

include the Hull amendments if the McFadden banking bill is to become a law.' They did this once in the 68th Congress. An effort was made to remove the Hull amendments; that effort failed.

"On June 24, when this Conference Committee report, carrying branch bank relief to the national banks of about forty-one cities in this country, which Mr. McKee and his committee so urgently urged the adoption of, Mr. McFadden stated to the House that day, in order that there be no misunderstanding on what the vote of this Conference Committee report meant, the following words: 'If the House votes "aye" on my motion' (his motion was the Conference Committee report excluding the Hull amendments) 'it will be a vote for the Conference Report including the compromise on the Hull amendments.'

"The House did not vote 'aye'; it voted 'nay' nearly two to one. Fifteen minutes after this statement of Mr. McFadden's, the House, in this vote I have just mentioned, turned the proposal down. They did not stop there, but they said to their conferees, 'You go back into conference instructed to stand fast for the branch bank provisions of the McFadden bill including the Hull amendments.'

"We mention those things only in the interest of facts. We want your votes, but we want your votes only with the presentation of facts. It is true that the Senate once said it will not have the Hull amendment, although it is equally true that the Senate Banking and Currency Committee in the 68th Congress approved the Hull amendment. Senator Glass and other present members of the Banking and Currency Committee of the Senate were then members of that same committee. The Hull amendments were not then regarded as an insurmountable barrier. It has just been

so regarded of late, and the reason is a most interesting tale.

"Upon the day that the Senate did say that it will not have the Hull amendments, I am going to read to you from Page 9265 of the Record of May 13 of this year, the day the vote was taken. I hold it up in order that you may see the coincidence, where Senator Edge in the middle of the first paragraph makes a certain statement, and directly opposite, in the middle of the second column, Senator Glass makes a statement. I am going to read those two statements and then let you draw your own conclusion as to how well informed the Senate was on the day that it refused the Hull amendments.

"Senator Edge speaking: 'Mr. President, if we adopt the Hull amendments, we practically state to twenty-six states that they can do as they please, that they can have state-wide branches, if they please. But if we eliminate the Hull amendments we announce to those twenty-six states that, so far as the Federal government is concerned, they must confine their branches to municipalities.' I want to emphasize that: 'If we adopt the Hull amendments we say to twenty-six states, you can do as you please.'

"Three minutes later Senator Glass speaking said: 'That is the Hull amendment. The Hull amendments serve notice upon the state of Missouri that the state shall never change its banking system, no matter how much it may desire to do so, with respect to branch banks under penalty of expulsion of all of its state banks from the Federal Reserve System.'

"Now, do the two statements square? Just one comment has been made, and it fits the case perfectly: One leader teaching the flat system, the other teacher teaching the round system."

Independent Banker Against Hull Amendments

J. S. MacDONNELL, president of the First National Bank of Pasadena, Cal., was the next banker to make an appeal for the McKee resolution. He said:

"I think the reason that I have been asked to speak here for five minutes is because I belong to the California League of Independent Bankers. I think the League of Independent Bankers has earned the right to have their opinions respected, or, at all events, to have their integrity respected insofar as their attitude is concerned toward branch banking. The California League of Independent Bankers believes that the Hull amendments, instead of impeding in any way the spread of branch banking, would be one of the most useful means of spreading branch banking in states that do not now have it. Being opposed to branch banking, I nevertheless can conceive that if some of the states that do not now allow it should provide by their state legislatures that it should exist in their states, many of the members here—national bankers—would see the wisdom of allowing them reasonable competition insofar as having branches inside the cities as designated by population.

"I am, further, very definitely impressed

with the unfairness of the measure and of its illogical basis. The McFadden Bill, by its name and in its very essence, is a bill to make as nearly equal as possible the chance of doing business under the national banking system with the state systems. If it was fair, therefore (and I am one of those who has twice gone to Washington to support the McFadden Bill)—if it was fair that California bankers should be allowed equality of chance under the McFadden Bill, how can it be fair that if the bankers of Pennsylvania or any other state should find themselves under the necessity of coping with this branch banking competition, how should it be fair that they should be denied by the very people that went to ask these identical privileges for themselves?

"I would have expected that the speaker who immediately preceded me, the leading speaker in favor of an illogical proposal, would at least have spent some of his argument to a definition or exposition of the reason why an illogical law and unfair law should be passed. I am willing to say that some of us were so anxious to have the McFadden Bill passed that in the early stages we would have kept quiet, if you please, about the Hull amendments, although

we did not think they were fair. But I would really expect at this stage of the game that a man standing up for, what is admittedly an unfair and illogical position would at least address himself to that argument and would not have referred so generally to mere matters of showing that the Senate did not understand what the McFadden Bill was about, and certain unfairnesses he has attributed to Mr. McKee.

"The letters that were referred to from various banks outside of Cook County, Illinois, did not impress me as being letters from men who had studied the branch banking situation very thoroughly, and how can they? They have never been in competition with it. We believe we have a right to speak because we are on the firing line; we know what we are talking about, and we think we ought to be at least as good judges as people who have never experienced this particular phase of banking."

Otto Reich, a delegate representing the First Trust & Savings Bank of Riverdale, Ill., made an extended argument against the resolution. He said:

"I have listened with interest to the remarks of the gentleman who preceded me. I have already arrived at the conclusion

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Respectfully submitted,

THE WILLIAM J. BURNS INTERNATIONAL DETECTIVE AGENCY, INC.

W. S. Sherman ASSISTANT MANAGER
J. A. SECTOR

that there is a difference of opinion. Perhaps you have. The purpose of this meeting is to clarify that. I do not know that I shall contribute much in that direction, but I have a few ideas. First, I am a national banker, and I am in favor of the McFadden Bill with the Hull amendments. You ask why? I will try to answer that. That is a reasonable question.

"I am opposed to the McFadden Bill without the Hull amendments, and I am opposed to the resolution that has been introduced here tonight. I think the issue that we had before was either the McFadden Bill without the amendments, or the McFadden Bill with the amendments. This looks like a strange and new infant that has been brought into the arena. It is a kind of colored one to me. I do not propose to be a parent to it.

"I look at this issue in this light: To me it seems that it is the issue between advancing branch banking further or stopping it where it is. I think the resolution that is offered here tonight permits a greater opportunity for advancing branch banking to get a foothold in those states where it does not have it now than the Hull amendments. That is why I am for the Hull amendments, and if you can find anything that is still tighter on tying down the branch banking, I am with it.

"In this paragraph No. 2 they say that branch banking can be established in the large cities of certain population. That is the opening wedge. It will only affect certain cities at this time. That is true. That is where the great, large financial interests lie now. Mencken says: 'When anybody makes a statement, find out what his interest is.' We are all human. I am against branch banking because I am afraid it will absorb me, put me out of business, and I just do not like that. I am kind of human. I have an instinct that has been planted into me by a natural law. That is self-preservation.

"Branch banking is inconsistent and un-American in the light of what the banking system now is. In over 100 years we have developed a system of banking in this country. I refer to it as the independent unit banking system, and it has served this country remarkably well. A portion of the country has broken away. We have branch banking in that portion, and as I view it, I do not favor it.

Small Banks in Jeopardy

"IN the large cities it will mean this: It will mean that the smaller banks, the independent banks, will be ultimately absorbed. There is no question about that. Those men have put those businesses in there, put their money in and their time, and I personally do not think that it is fair to them to put them out of business; but that is not what I am afraid of so much. I believe that the branch banking, as it may expand, becomes more dangerous.

"These gentlemen are astute. I give them credit for that. You must, too. They would not present a proposition here or urge it before Congress that would invite branch banking all over these twenty-six states, in every hamlet and everywhere else. The opposition would be too great. They could not do it, but if they take it in homeo-

pathic doses and develop that banking system in the big cities, and the big banker gets bigger and stronger and more powerful, then he will begin to look for newer fields of operation, and they can go to legislatures and present their views with great force. They get behind large newspapers. They have a right to. I am not quarreling with them particularly, but I do not like it, and you never can tell what the legislature will do next.

"They say in Illinois: 'We have got to go back and have a referendum, and that there is no danger.' Well, I want to say to you that when a great influence talks to a newspaper, and they present their views as was indicated to them, they can influence great bodies of men. That is all right. They have a right to. They are honest in their opinion, but they are very powerful. They are very intelligent and astute. They can present the matter through a number of years perhaps so that they can sway public opinion and even legislatures to change laws.

"What would it mean if they get to a point where branch banking does come into these twenty-six states in an extended degree? It means that it will develop an oligarchy in banking, great banking powers, probably five or six leading institutions that will control the financial situation in the country. That is the ultimate development. It may take a good many years.

"At the present time the McFadden Bill calls for a reenactment of the Federal Reserve Act, and they need not have any fear that it will be reenacted. Everybody wants it, not only the bankers, but the people; but if branch banking ever gets a serious foothold in this country, when it comes for a second reenactment twenty years later—and it may take them fifteen years before they can develop branch banking thoroughly in this country, and have it considered by various legislatures—then they may become larger than the Federal Reserve System, and then will come the danger—a real danger, because it will take the control out of the hands of the people. They are strong.

Tendency Toward Monopoly

"NOW there was a question asked a moment ago: 'What is the Hull amendment?' Congressman Hull is here. We asked that he might be permitted to address this gathering. That right was denied. I have Congressman Hull's views on the Hull amendment, and it seems to me that his views are worth while in connection with the consideration of this question, as that seems to be the principal issue, and I will state them.

"Branch banking is, in its essence, monopolistic. To say that if a large proportion of the banking interests of a state are centralized in the hands of five or six or a dozen branch banking institutions, and that these institutions will not combine, either as a result of direct conferences or agreement or of mutuality of interests, is to ignore the fundamental basis of human action. If any lessons are to be drawn from the development of large industrial enterprises in the United States it is that the principle of centralization, when once inaugurated, will proceed, unless interfered with by governmental action, to a point of complete concentration in an individual, or a group dominated by an individual.

"The statements I have read to you are not the fulminations of some demagogue, but are the thoughtful utterances of a man of financial experience, of sound business judgment, of keen human understanding and of temperate speech, Henry M. Dawes, former Comptroller of the Currency.

"It is because we believe Mr. Dawes was right in his opinion, that branch banking is monopolistic in character, and that it leads to a highly centralized control over the fortunes of industry and of men and is inimical to the interests of our country that some of us have sought in any grant of branch banking powers to national banks, to confine such grants of powers to national banks in present infected territory, and to discourage the future extension of branch banking into territory not now permitting it.

"The effort to confine branch banking to present infected territory has been put into definite form in certain proposals in the McFadden bill, commonly known as the Hull amendments. Briefly, these amendments classify all banks, state and national into two classes, those located in states where state laws permit branch banking, and those located in states where state laws do not permit branch banking. State laws permit branch banking in twenty-two states, and do not permit branch banking in twenty-six states.

"To national banks the Hull amendments in effect say: 'If you are located in states where at the time of the approval of this act you are suffering from the competition of state banks with branches, you, too, may have branches in cities of 25,000 or more, but not otherwise.' To state banks, the Hull amendments in effect say: 'We welcome your present and continued membership in the Federal Reserve System but if you are located in states not at the time of the approval of this act permitting branch banking you may not take advantage of any subsequent change of the law of your own state and thereby acquire the right to do a branch banking business and at the same time maintain your membership in the Federal Reserve System. If you value your membership in the Federal Reserve System, you must forego branch banking; if you take up branch banking you must forego membership in the Federal Reserve System.' The Hull amendments in effect give powers to national banks where powers are now necessary to meet the competition of state banks, but seek to make identical the interests of national and state banks in states not now permitting branch banking to maintain the status quo in such states—in other words, in maintaining the independent banking system.

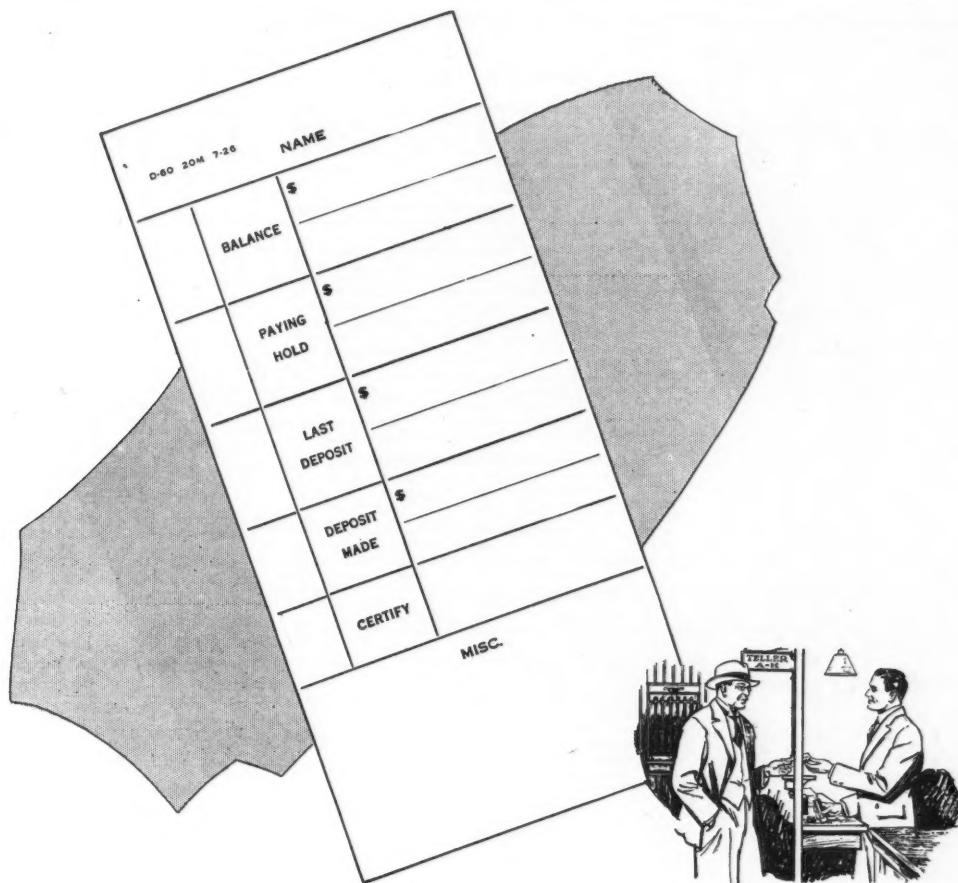
A Real Compromise

"IT should be observed that the Hull amendments are not destructive in their character or effect. They seek to undo nothing already done. They represent a practical compromise with an existing situation, a compromise made necessary by the fact that forty-eight states, as well as the national government have power to pass laws for the chartering of banking institutions. Sometime in the future the Federal government may boldly take over the whole power of legislating for banking institutions, both state and national, but that time has not yet arrived.

"To the Hull amendments as I have briefly outlined them, certain objections have been made. One of these objections is the lack of uniformity, which would result in the banking practice among national banks throughout the United States. One distinguished Senator, who has opposed these amendments, has described that lack of uniformity as being similar to that described by Lincoln in his famous phrase—'a Union half slave, half free.' We think the Senator whom we have quoted is unhappy in his quotation from Lincoln. For it suggests the natural inquiry as to which states would be similar to the slave states and which states would resemble the free states—which states would represent economic freedom and which states would represent financial servitude. I think that question will answer itself in your mind as it does in mine.

"We admit the desirability of uniformity of banking practice when it can be had without undesirable results, but we see no requirement of uniformity based on any argument of essential justice as long as banks are competing on even terms with other banks of their own neighborhood. Banking is essentially a local business. Banks are local institutions. They draw their deposits from their own neighborhood. Their borrowing customers come from their own immediate vicinity. They are competing in business with other banks of their own neighborhood and not with banks of other states. We see, therefore, no reason founded in essential justice requiring uniformity throughout the country.

"It should be noted that the situation immediately following the passage of the McFadden bill, either with or without the Hull amendments would be exactly the same so far as uniformity among the states is concerned. The lack of uniformity in banking practice would exist in either event. National banks in twenty-two states would be permitted to have branches and in twenty-six states would not be permitted to have branches. But there would be this difference in the two situations; that under the McFadden bill, without the Hull amendments, there would be a natural inducement held out to the big national banks in states not permitting branch banking to join the big state banks in a campaign in their respective state capitals for the grant of branch banking privileges. As one Congressman has said, there would be a branch banking lobby in every state capital of twenty-six states. The steady extension



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of the practice of branch banking would go on in both national and state banks under the inducements of federal legislation. With the Hull amendments made a part of the law, we could confidently expect that that tendency would stop. We would stabilize the situation at the present state until we have had a larger experience and a better understanding of branch banking. Finally it should be noted that Congress does not divest itself of power to meet any situation that may arise. It simply notifies the banking world that the power to do a branch banking business will be granted hereafter with reluctance. The Hull amendments are an assertion of a purpose by Congress to retain for itself the right to fix the powers of national banks, instead of handing that right over to the various states. What would you say of a Congress that passed an act that said "We authorize the incorporation of national banks but all their powers shall be fixed by the law of the state in which they are located?" If you regard that as absurd, why should you regard as absurd a purpose to retain for itself the power to determine how much further branch banking shall be extended.

The one way in which uniformity can be effected in the practice of national banks in the near future is by providing that national banks shall have branch banking without reference to state law. That has, indeed, already been urged. If there are any who are opposed to branch banking but who are living in the illusion that so far as they are concerned this whole discussion is of no importance because, forsooth, the law of their own state prohibits it, and furthermore, because the law of their own state on banking cannot be changed without a referendum vote, let me suggest that they are living in a false security. Should the McFadden bill be passed without the Hull amendments there would result naturally an increase in branch banking influence and branch banking political power throughout the country, following which the next inevitable step would be the granting to national banks branch banking privileges without reference to state law.

A Hypothetical Question

"ANOTHER, and the most plausible, argument made against the Hull amendments, is usually stated in the form of a question: What, if one or more of the twenty-six states not now permitting branch banking should subsequently change its laws so as to permit such practice? Assuming that the Hull amendments were a part of the Federal law, would you not in such case seriously embarrass the national banks in such states? Any one can ask a hypothetical question that will make the most elementary proposition of good sense look absurd, and the question asked is one of that class. We are dealing with human probabilities and not with hypothetical possibilities. Everyone here knows, and if he does not know, I speak out of twenty years' legislative experience, and I will tell him so—that no economic proposal ever comes to a legislative body walking on its own hind legs. It has always come in the portfolio of some legislative lobbyist representing some economic group hoping to gain by its passage. If the possibility of profit is absent, as it would be in states not now permitting branch banking in case the McFadden bill with the Hull amendments is law, the motive for passing an act permitting branch banking in the twenty-six states not now permitting it, will be gone, and no such act or acts are likely to be passed. I speak with confidence when I say that the inclusion of the Hull amendments in the McFadden bill will stop a further extension of branch banking into territory where it is not now permitted. One objector to these amendments has stated that it would freeze the situation as it is. I accept his description.

"A further objection to the Hull amendments is based on the assertion that branch banking is a perfectly natural economic development, and being a natural development it is assumed that it is a perfectly inevitable development. Assumed to be an inevitable development, the argument is—why stand in its way? We are perfectly willing to admit that branch banking is a natural development. So are all forms of monopoly natural developments. But natural, and desirable, and inevitable are not synonymous words. Because a tendency is natural it is not necessarily desirable, still less inevitable. The whole history of our civilization is made up of restrictions put upon perfectly natural developments. Children born out of wedlock are frequently called natural children, but the bearing of children of that kind is not considered socially desirable. Weeds in a garden are a perfectly natural development, but the gardener digs them out. Branch banking is a noxious growth in our financial field, and if, perchance, it is necessary to recognize it, it is not necessary to encourage an extended growth.

"A still further argument used against the Hull amendments is that they are an impairment of the rights of the state. This argument was so feebly pressed and is in itself so absurd that we do not feel it necessary to give it much attention. If it is the right of the Federal government to legislate for the correction and protection of a national banking system, it is certainly its duty to make any reasonable compromise with reference to the membership by state banks in the Federal Reserve System that will help protect the Reserve

System and protect national banks against unfair competition

Effect on Business

"THE struggle between those who are urging branch banking and those who are opposing it is something more than a struggle between the big fish who wishes to swallow the little fish who do not wish to be swallowed. It is a fight that profoundly affects the economic and social life of America, through its effect upon business. It is a fight for the business man of small and moderate size operations for his prosperity and well-being.

"Big business, with its inspiring leadership by really big business men, counts much in the prosperity of this country. But the small and moderate sized business enterprises of our country, built upon the courage, sagacity and enterprise of the ordinary man count more. It is for this man the opponent of branch banking is fighting—it is this man who has made possible the marvelous development of America. He has accomplished great things because here, as nowhere else in the world, the warm sunshine of opportunity has brought out the latent and unseen powers of the ordinary man. Opportunity is what America has meant to mankind. Opportunity is what the independent community banking system means to American business.

"In the more primitive states of our country's development, a strong arm, a stout heart, a rifle and a few tools were all a man needed. He could go out into the wilderness and build a home and make a fortune. The rich resources of soil and forest, of stream and mountain, were his for the asking. His capital requirements were none. It is needless to say those days have gone never to return. Land of rich soil costs money—the gold has been washed out of the California sands. A man must have capital now to develop anything, no matter what his individual genius may be or how strong his arm or stout his courage. The reservoirs of credit are the banks. To secure credit a man must be known. His courage, enterprise and sagacity can be known only to his neighbors—to those who know him. It is at this place that the branch banking system fails. The hired clerks of branch banking cannot with safety be given authority to make commercial loans. The absentee officers of the central bank cannot well judge of credits far away. Furthermore, it takes time. It is at this place that branch banking fails, and it is at this place that the independent community bank serves its great purpose. It gives to the ordinary man the ability to know, and to know quickly, what his credit is, and how far he may go. It gives him credit where he could not get it of a branch bank. The economic independence of the average small business man is what the independent community banking system stands for, and what the opponents of branch banking are striving to maintain, and the fight is not yet over.

"As justification of my own appearance before this body of bankers, may I be permitted to say that the question at issue is not one requiring the testimony of experts. It is simply a question of public policy in which the opinion of any thoughtful man with vision enough to look ahead is as much entitled to respect as the opinion of the greatest experts. It is a question whether you wish to put the funds of the many millions of our people into the financial control of a very, very few. Perhaps that control would be wise. Those who seek that control undoubtedly think so. Perhaps it would be wise, too, if we gave up our political democracy and vested all political powers in the hands of a very few. In my opinion we are not ready to do either, no matter how wise the Mussolinis of the political or of the banking world may be."

Mr. Segerstrom for Measure

CHARLES H. SEGERSTROM, vice-president of the First National Bank of Sonora, Cal., spoke in behalf of the resolution:

"I am the president of the California League of Independent Bankers, a league of bankers of California who are opposed to branch banking," he said.

"We have heard a great deal about branch banking this evening, but I feel the subject of debate tonight is not branch banking. The subject of debate is: Shall we adopt the Hull amendments or shall we pass the McFadden Bill without the Hull amendments?"

"We have sent the largest representative gathering to Washington that any state in this Union sent in behalf of the McFadden Bill with the Hull amendments. We found, after the hearings and after the various conference reports and the various actions

of Congress with which you are well familiar, that it was impossible to put through the McFadden Bill with the Hull amendments.

"You say: 'Why is this impossible?' We hold that the great American people, the great American people at heart, insist upon fair play, and fair play in legislation as well as in business, in sport and in any other undertaking. The Congress of these United States will never pass any legislation knowingly in which some certain section or some certain state seek special privileges which are denied to other states.

"In this particular instance the Hull amendments seek special privileges in the states which now prohibit branch banking, and they leave the states which are now suffering under branch banking without any legislation at all. We ask, is it fair? California is on the firing line. We are facing the branch banks. We have no legislation in this state that even stops branch banking at the city line or at the county line, but it is state-wide in its action.

"This is the first time in American politics that a branch bank bill has been proposed which will actually limit branch banking to certain defined districts so that each and every banker in America may know how far he can extend his branch bank activities or how far an independent bank may feel that the force of branch banking is going to come.

"We feel that in this situation there is no one who is better posted than the bankers of California, the unit bankers of California, as to what would be a fair bill for the American bankers to accept as a fair proposition to the national banking laws of America, to show just exactly where we should limit this banking. We feel that in the city is the proper line. We feel that there is no subject of debate in this McFadden bill regarding branch banking, and we, therefore, ask you that you support this resolution and give the bankers of California the relief which they are justly entitled to."

Mr. Doyle for Hull Amendments

W. H. DOYLE, cashier of the State Bank of Plattsville, Wis., made a vigorous speech in behalf of the Hull amendments.

"This controversy resolves itself into a question of whether or not we shall have the McFadden bill with the Hull amendments or whether we shall have the Senate bill," Mr. Doyle said. "The McFadden bill, with the Hull amendments, limited branch banking in those states where it is permitted to cities of 25,000. That restriction limited branch banking to approximately 100 cities of this union and would have enabled national banks in those states where branch banking is permitted to meet the competition that now exists in those cities.

"Why was it, then, that the bill as to this limit of 25,000 was changed in this respect? It is true and cannot be controverted, and will not be attempted, I imagine, that there was no disagreement between the Senate and the House upon this proposition or upon this limitation of 25,000. No

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amendment increasing it to 100,000 was proposed by the Senate Committee. No amendment was proposed upon the Senate floor increasing it to 100,000.

"There seems to be unanimity of opinion as to that proposition. Why then—and I repeat it—why then, there being no disagreement upon that point, did the Senate conferees come in with an entirely different limitation increasing it to 100,000?

"It is evident from this report that the Senate Committee cared little about the competition that was being suffered by national banks in many places of less than 100,000 people. These are the only grounds upon which there is justification for relief to national banks in this controversy.

"The Senate Committee, it seems, was more interested in having a monopolistic privilege extended to the great banking institutions of this country regardless of what injustice was suffered by the national banks in cities of less than 100,000 people. The chief concern of the Senate Committee, it seems, was to take care of the big banks, and let the devil take the hindmost in cities of 100,000 and less.

"Their apparent interest in the preservation of the Federal Reserve System and of the national bank system is rank hypocrisy in the light of their willingness to desert and repudiate the cause of the national banker in cities of less than 100,000 people.

"I say that the preservation of the national banking system lies in the preservation of the rights and privileges of national banks in cities of 100,000 and less, and if the proponents of branch banking were willing to sacrifice the rights of the majority of the membership in the national banking system—were willing to sacrifice the fundamental provisions in the McFadden bill, outside of the branch banking provision—then they care little about the preservation of the national bank system or the preservation of the Federal Reserve System.

"The national banks in cities of 100,000 and less constitute the bone and sinew of the national banking system, constitute also the bone and sinew of the Federal Reserve System and the independent banking system of this country. And yet the interests of these institutions were ignored and repudiated in the report of the Senate conferees in these disciples of Carter Glass's bill in the Senate.

"The chief interest of the proponents of this branch banking menace have the same interest in national banks in cities of 100,000 and less than the so-called progressive or LaFollette faction in my state (Wisconsin) have in the Republican Party, and that is the use of the Republican name at primary or election time. So it is with the proponents of branch banking. Their desertion of the cause of national bankers in these cities of 100,000 and less indicates that their chief interest is in the national bank organization and in the national bank influence in enabling them to put over this damnable evil under cover of trying to do something for national banks.

The Big Idea

"THE big idea with the proponents of this branch banking bill is to put this measure over at the expense of needed legislation for the smaller banks in the

national system, at the cost of failure to renew the charter of the Federal Reserve System.

"Their interest in the national banker in cities of 100,000 and less seems to be what they can get out of him in influence rather than what they can do for him. This mask of hypocrisy should be ripped off, and the national bankers in cities of 100,000 and less made to see that they might well pray to be delivered from their so-called branch banking friends.

"It seems that there was not enough for the big monopolistic interests so that they could give anything in the way of relief to these men who suffer from branch bank competition in cities of 100,000 and less. They did not show their fine Italian hand with this 100,000 proposition until they were in the quiet and darkness of a conference. They did not dare antagonize the vast majority of national bankers by offering an amendment to the House bill in this respect.

"No, they would secure the cooperation and the influence of the great majority of banks in the national banking system, and by that means banks in cities of 100,000 and less, and then after a gesture in the direction of relief for that particular class, they would desert and repudiate their obligations to that group for their own selfish interests, a monopolistic privilege.

"The enactment of the Senate bill would amount to notice to state legislatures throughout this country to go ahead and grant branch banking privileges without interruption, because Congress has enacted a statute that would enable them to proceed in that kind of business and expect the enactment to encourage the breaking-down of the prohibition that already existed.

"The restriction of Congress on unwise and unsound banking principles and practices has been the strongest influence in shaping sound banking laws in every state throughout this union. What kind of banking laws may we expect throughout the states if Congress at every session attempts to liberalize the national banking act, because some particular state permits evils in its banking system?

The Barriers Go Down

"THE passing of the Senate bill would mean that it was a declaration of a national policy by the national banking system. It would be notice to the state legislatures where branch banking is now prohibited that Congress had broken down the barriers that formerly existed and that Congress had passed the measure to permit a free for all trot in branch banking, if the states throughout this union desired it. Congress has steadfastly refused to sanction unwise and unsound policies to be engrafted upon the national banking system and on a matter of national policy, so vital both to the independent banking system and the Federal Reserve System, by permitting branch banking evil to be engrafted upon it, not to say anything of the harm it would do in inducing state legislatures to permit statewide branch banking everywhere within a short time.

"Who shall say that the gates shall be thrown open to branch banking everywhere? That the state laws regulating general bank-

ing shall be so liberalized that we shall soon witness the withdrawal of a large portion of banks from the national system to engage in liberalized banking, as they call it? God forbid that these innovators, these scientific trend monopolists, these liberals in banking policy, shall ever get very far with their propaganda to liberalize to their liking the national banking act or the Federal Reserve System!

"These institutions are the pillars, so to speak, of our financial structure. They have been the beacon lights that have guided every state in this union throughout, in formulating sound policies and safe banking practices and we witness the spectacle of monopolistic interests, of selfish groups in the large centers for the most part, asking Congress to remove the barriers that exist by statute, asking Congress to remove national bank restrictions on branch banking, hoping thereby that twenty-six other states may do likewise.

"That step may be the entering wedge to an orgy of competitive, unwise and unsound banking, such as this country has never witnessed. Too much liberalization, as you know and as every banker knows, spells disaster. It is safe and sane restriction and regulation in the public interest, and remember that, my friends, in any connection—public interest—not in selfish interest, that has made our banking system what it is today, the best in the world and so recognized. Any group that would pass on this branch banking evil upon the national system is playing with fire that may lead to a dreadful conflagration.

"If the proponents of branch banking or the proponents of the Senate bill desire to meet only the evil that today exists, which they say is the inability of national banks to compete with state banks in branch bank territory, why are they not content to remedy the evil instead of spreading the branch bank contagion into new territory that is today immune from this plague. They do not propose to vaccinate. No! They desire to inoculate the virus into every state in this union where it is now prohibited.

"When the foot and mouth disease invaded California that state took drastic steps to prevent its spread. This commonwealth adopted the principles of the Hull amendment, that is, to at least confine it to where it exists and to prevent its spreading into new areas.

"The proponents of branch banking as expressed in the Senate bill do not desire to confine it to local territory. They desire the spread of the contagion into every state in the union.

"When smallpox makes its appearance in my state, we are prepared to cope with it promptly, because there is compulsory vaccination in our schools, not in the interest of a few who have no fear, but in the interest of the public, which after all is the highest interest in this land. We have, therefore, been successful in combatting that dreadful disease.

"The proponents of the branch banking, as expressed in the Senate bill, do not want compulsory vaccination against the dangers of branch banking, or branch bankitis. They are thinking of their own immunity, their own selfish, monopolistic interest, caring nothing about public interest.



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Extending Branch Banking

"BRANCH banking is now prohibited in twenty-six states. It will be prohibited there if the Hull amendments are enacted. National bankers can prevent it from being extended into the twenty-six states, because they can say: Congress refuses the privilege because it is considered unsafe and unsound. It would be unfair to grant your state bank privileges that we cannot enjoy. That is the reason for the legislatures in these twenty-six states now refusing to grant branch banking privileges to state banks.

"On the other hand, let Congress pass the Senate bill for branch banking and, with that endorsement of the system, there will remain no good reason why every state legislature throughout this union should not let the bars down, and the result will be state-wide branch banking everywhere, but the evil will not stop there, as there are

24,000 state banks and some 8000 national banks. Then will begin, after they have been accorded their privilege, the assault on Congress for liberalization and modification of the more stringent provisions of the national banking law, in order to place them upon an equality with the 24,000 banks already outside the national system. Denied the modification they demand, in order to compete with the state banks, which now outnumber them three to one, there will then commence an exodus from the national banking system and with it the safety and the very continuance of the Federal Reserve System itself may be imperiled.

If you wish to remove the props from both the national banking system and the Federal Reserve System, grant these demands of these proponents of branch banking, but look where you are drifting.

"That defeat of Senate legislation in the House is notice of the fate that awaits similar legislation in the next Congress.

You may succeed in hoodwinking a certain following of national bankers upon the ground that this McFadden bill must be supported without the Hull amendments because the future of the national system is dependent upon their enactment, but those who are inclined to believe that propaganda are being deceived by false words.

"Everything in the McFadden bill, apart from its branch banking privileges, could have been enacted into law at the last session of Congress, practically without debate, if these branch banking proponents had incorporated their demand in a separate measure, but they were willing to forfeit the legislation that all of us concede national banks do need and that they would have gotten. They were willing that the opportunity to renew the charter of the Federal Reserve System should be lost rather than to waive their opinion about monopolistic branch banking."

Mr. Hinsch Explains Why National Banks Are Handicapped

CHARLES A. HINSCH, president of the Fifth-Third National Bank of Cincinnati, Ohio, in urging the adoption of the McKee resolution, revealed that the national banks volunteered to give the state banks the advantage to help win the war.

"I am president of the Fifth-Third National Bank and president also of the Union Trust Company of Cincinnati, Ohio," Mr. Hinsch said. "I am wondering if we all realize how the plight, in which the national banks are placed today, was brought about. I was president of the American Bankers Association in 1917-18, at which time an amendment was passed to the Federal Reserve Act, which conferred upon state banks the right to enter the Federal Reserve System, to retire upon giving six months' notice, and carrying with it all the rights and privileges enjoyed under their state charter, not inconsistent with the Federal Reserve Act.

"You will ask why it was the national banks at that time did not remonstrate against the passage of such an unjust measure. My answer is that it was patriotism that prompted them to desist from asserting their rights at that time, because it was manifest that, if we were to win the war, we must mobilize the reserves of this country, and that national banks were patriotic enough to desist from asserting their rights at that time, in the full belief that Congress and the state banks as well would be perfectly willing to accord them those rights if and when the war was over.

"I appeared twice in Washington before the Banking and Currency Committee of the Senate at the last two Congresses, and after trying to induce the committee to agree upon the passage of the McFadden bill with the Hull amendments, as endorsed by this Association, Senator Glass asked me: 'Mr. Hinsch, do you think it would be right for Congress to pass a law which would confer upon bankers in twenty-two states the rights denied to bankers in twenty-six states?' I said, 'I do not.' 'Then, how do you justify your position in asking for

the passage of this legislation?' I said to him that half a loaf is better than no bread; that it was purely a matter of expediency, and I felt the greatest thing that confronted us was the preservation of the Federal Reserve System, because in the twenty-two states where branch banking was made possible, it placed the national banks in an unfair position in competition with the state banks, because the national banks were not allowed to have branches.

"As I stated before, I am president of the Fifth-Third National Bank organized under the laws of the United States, and I am president of the Union Trust Company, a state bank organized under the laws of Ohio. The total deposits of these two institutions are about \$80,000,000, with \$12,000,000 of capital and surplus. I have hopes since 1919 that some legislation might be passed which would make it possible for merging these two institutions under our national charter, which, by the way, is No. 20, taken out in 1863, when the loyal stockholders of our bank subscribed to the capital stock for the purpose of helping the government prosecute the Civil War.

An Unfair Situation on Branches in Ohio

"I WANT to say that this Union Trust Company, the state bank, has eleven branches, both members of the Federal Reserve System, but the Fifty-third Bank cannot establish branches. I ask you, is it fair? Is it just?

"I feel that the situation is one that we are facing where we are not confronted with the theory, but an actual condition where the national banks must be given some relief or they will naturally go out of the national banking system and take up state banking.

"I am here pleading to you to insure the safety and preservation of the Federal Reserve System by giving to the national banks the same privileges accorded to the state banks in the twenty-two states of the Union.

Mr. Hawes for Resolution

RICHARD S. HAWES, vice-president of the First National Bank in St. Louis, said the adoption of the McKee resolution was distinctly desirable.

"The distinguished speaker who preceded me in opposition to the resolutions presented here tonight says that the proponents of the Senate bill, if they prevail, will establish branch banking over America," he declared.

"I say to you that the Senate bill is not under consideration here tonight. I say to you that you have a resolution before you which in clear, concise, real English language asks for common, honest justice to the national bankers of America, and that is all.

"The Hull amendments permit branch banking, so it is just as much a branch bank bill as a Senate bill is. Therefore we say that the bankers of this country have never yet gone on record for an unfair and unjust measure, that the United States Government, in my judgment, has not yet passed a measure which was unfair, and I say to you that I do not believe the American Bankers Association, or the Senate and House of Representatives in Washington, is going to pass the Hull amendments, because they are unfair and unjust to the national bankers of this country. And why? I am for the unit banker from top to bottom, but I am against the Hull amendments because it shackles us national bankers in twenty-six states in America, and because it says to the national bankers in this country that if the state bankers in the distinguished state from which I am happy to come, Missouri, decide they want branch banking in their state (and there are 1700 state bankers in the state of Missouri, and 160 national banks), that the tail is going to wag the dog. If the state bankers in the state of Missouri say that they shall have branch banking in the municipalities in which the bank is located, and they pass such an act through our legislature, and it becomes a law, we national bankers under



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the Hull amendments cannot enjoy those privileges. If that is equity and justice, I do not know what equity and justice are. Encouragement to branch banking? I say the Hull amendments are not. When you shackle the national bankers, you give the state bankers free reign to go after it.

"Now do not be led astray into the highways and byways of this discussion in branch banking, because I wish to repeat myself to this extent: that the Hull amendment is a branch banking act. The resolution before the House does not mention the Hull amendments. It does not mention the Senate amendments. It writes in plain English an enunciation of the great American principle of fairness, justice, equality to all characters and kinds of banks."

Federal Reserve in Danger

MAX B. NAHM, vice-president of the Citizens National Bank and Bowling Green Trust Company, Bowling Green, Ky., asserted that the fate of the Federal Reserve System depended on the survival of the national bank.

"There are times when an individual has his greatest moment, and there are times when an organization like this has its greatest moment," he said.

"This is your big moment, because you hold tonight in the hollow of your hand the fate of the Federal Reserve System and of the great national banking system of the United States.

"Let us not lose our sense of proportion. The branch banking matter is not the principal thing. It is a subordinate proposition. The great proposition here is the preservation of the Federal Reserve System, and that is my interest in this proposition. The Federal Reserve System can be preserved only by conscripted capital. You can conscript the capital only of national banks. The law does not allow you to reach the state banks. The great national banking system is passing away, and if it does pass away, the Federal Reserve System, whether you recharter it or not, drops because it has nothing in the world to stand upon.

"There is nothing that is in sight that can stop this but the passage of the McFadden bill with the seventeen sections that enlarge the privileges of national banks, and it is the Hull amendment that up to date caused us not to pass it, and it is because of the Hull amendment, those nine words in the final conference, 'from the date of the passage of the bill,' which is the essence of the Hull amendment, that you are here tonight.

"I say that the Federal Reserve System can exist only on conscripted capital. During the Revolutionary War the Continental states had no authority, and the Revolutionary War was won by private subscriptions of Washington and Morris and the government of France. During the Civil War the United States could not sell its bonds, and Salmon P. Chase and Jay Cooke raised \$2,000,000,000 through the national banking system. In the last war you sold \$25,000,000,000 of bonds through the Federal Reserve easier than they did \$2,000,000,000.

"I say the national bank system is passing away. It has but three advantages, and only three; one, the profit in circulation,

very slight; that is very nearly gone and will be gone in 1930 with the redemption of coupons, \$650,000,000 of them. Then the examination, and that is being taken up by the Federal Reserve in the great cities and will be extended, and finally the advertisement.

"Of the 30,000 banks in the United States, less than 8000 are national. Of the \$55,000,000,000 of assets in the United States, only \$20,000,000,000 are national. There is one national bank in New Orleans, many state banks. There are three in Buffalo, four in Cleveland, three in Pittsburgh, four in San Francisco and a dozen times more state banks, and if the national bank system does quit, what then? Of the 22,000 state banks, only 1418 today are in the Federal Reserve System—less than 7 per cent. Suppose, of the 8000 national banks, all quit but 7 per cent; it would totter immediately. If seven times that many, 50 per cent, remain, it is paralyzed and cannot function.

"Get Out of the Way"

"THAT brings us to this question of the McFadden bill, which is our only relief. I happen to be chairman of the Federal Legislative Committee of the American Bankers Association. This branch bank question has been up for ten years, and for two years we have honestly tried to pass your Hull amendments. Not a member of this administration has opened his mouth until this good time in any other way. We failed! We could not do it, and I have had my doubts at times as to whether you ever wanted either the Hull amendment or the McFadden bill to pass. But whether or not, I say to you, get out of the way. If you can't shoot, give up the gun and let somebody shoot who can.

"I come from Kentucky. We have no branch question there, and I am not interested especially in the branch question at all except as it concerns the people of the nation, but I have got this to say about your Hull amendment: I feel a bit like a boy just learning how to dance. He said to his girl: 'Turn me loose; I can dance better by myself.'

"The Hull amendments arrogate to themselves all the added branch virtues. Let us see if that is so. Our good gentleman from the neighborhood of Chicago (Mr. Reich), who said he was in a town of 3500 inhabitants, is not concerned. The McFadden bill does not allow branches in towns of less than 25,000. Let us take this thing and look at it and see whether the Hull amendments add anything whatever in the way of stopping branches in the United States to the McFadden bill.

"The McFadden bill, first, denies branches in those states which do not allow branches, denies them to national banks; second, it denies branches to national banks and state banks within the system outside of their parent city; third, it denies branches in towns of less than 25,000 inhabitants at all; one from 25,000 to 50,000; two in 50,000 to 100,000. That is what it denies in banks.

"What does the Hull amendment add to that? It simply says that in the twenty-six states which do not allow branches, if ever they should change their minds, the national banks and state banks in the system cannot

have them at all. Well, I come from Kentucky. We have no branches there.

"Suppose the Hull amendment should pass—and that means that Kentucky could never have branches after the passage of the bill. Then in that event would any Kentuckian be fool enough to start a new national bank? I do not think so. They do not breed fools down there. And the national banks that are in existence with this prohibition on them, that they could never have a branch, and in case the economic necessity arose—and it has in New York and California—would not they slip out of the national bank system into the state bank system and get out of the Federal Reserve and have all the branches they wanted? And so, would not the Hull amendments merely make for branches rather than to keep them from them? Is not that as plain as daylight? It does not make any difference in the world to a banker whether he is a national banker or state banker. If there is a necessity in the community for the bank, and if he runs his bank correctly, he will succeed, state or national, and if there is not a need, and he does not run his bank correctly, he will fail. But there is a difference to the people, and that is why I am here. The difference is this: It is an absolute necessity that this great government in time of war and in time of stress should have its grip on the money power of America, and it can only have it through the national bank system that is about to pass away! In reference to the Hull amendment, if you insist on this, you will not pass this bill through the last term of the Sixty-eighth Congress, because they are hitched on this very question. That is why we are here making this appeal. You will lose the Federal Reserve System. You will lose the national banking system, and you will lose the grip that this country must have in time of stress and war on the great money power of America. And so I say to you Hull amendment people, get out of our sunlight! We cannot live and thrive in the withering shade that you cast!

Facing the Facts

BEN JOHNSON, president of the Commercial National Bank, Shreveport, La., made a brief appeal for the passage of the resolution.

"All of our talking about the Hull amendments reminds me of a story that a friend of mine told me the other day about a Jew and a Scotchman who went in swimming," he remarked. "One bet the other a dime that he could stay under the longest, and they both drowned.

"I believe we all want the same dime. I believe the sentiment among American bankers and among American people is overwhelmingly in favor of the preservation of our unit system of banking. This convention has put itself on record unmistakably on that point, and has indorsed in the past the Hull amendments believing at the time, I think, that that was the best opportunity then offered as a compromise measure to effect the ends that we all desire.

"I am president of a national bank in Louisiana and of a state bank in Louisiana, not affiliated, operating in a different county and having the privilege under the Louisiana laws of establishing branches within that

"Tears benefit not the dead—" PLUTARCH

It is then too late, but at the right moment

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ALL the tears that may be shed over the death of a customer or employee shot by bandits during a holdup of your bank will be of no avail.

Life will have expired—life will have been wasted.

But tears will save life when they are brought to the eyes of a bandit by Federal Gas. This powerful gas, discharged into the faces of bandits at the time of a holdup will render them harmless, defeat their purpose and protect the lives of customers and employees.

While the gas may also bring tears to the eyes of everyone in the bank, what customer or employee wouldn't undergo a slight discomfort of a few minutes to save their lives and money? And after all is over and the effects have worn off, who wouldn't thank you for your foresightedness in installing humanity's greatest weapon against lawlessness—Federal Gas.

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Bandits fear Federal Gas; they know it is deadly in its effect on their operations. No bandit will voluntarily attack a bank, knowing that it is protected by Federal Gas.

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Federal Gas is discharged away from bank employees behind the cages, giving them ample time to operate before the gas reaches them.

There is no known means or method of neutralizing Federal Gas which the bandit might use to combat it.

Neither customers nor employees are injured as there are no after effects from Federal Gas. A few minutes in the open air will bring the eyes back to normalcy.

Statistics this year show that there are four daylight holdups to every night burglary. It is, there-

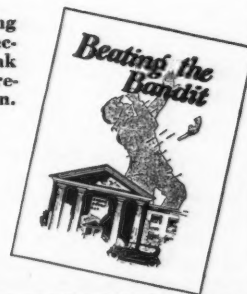
fore, logical that more money should be spent for daylight protection, yet a complete installation of Federal Gas costs less than the average system of night protection.

There is no danger of damage suits to the bank. Liability insurance covers any possible claim to injury.

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county, but we do not have any branches of the state bank, so I myself am not in favor of branch banking. I see no objection, however, to branch banks so long as the operations are limited to such as will make the managing officers of that bank responsible to local conditions. We are not threatened at any point in the resolutions which I arise to support with absentee control or any proposal for branch banks where that principal of local interest and local affairs familiar with the local conditions would not obtain.

"Now, whatever may be my or your individual attitude about branch banking, we have reached an impasse in this matter, and we have come face to face with facts. I

believe the proper forum for continuing a fight in the twenty-six states now not permitting branch banking is in those states themselves rather than in the national Congress. There is an inconsistency, to my mind, in our asking the Congress of these United States to pass a bill that is narrow in its application and allowing to one group of our citizens certain privileges not accorded under similar conditions to another group, and when our legislators think that matter through, and ask us if we think it is fair, we have got to duck and dodge or admit out of our inner consciousness of fairness it is not right.

"The resolution that we propose, that we speak to indorse, curbs branch banking

where it is, limits the banks to branches within the city limits, but strikes out those words, 'at the time of the passage of this act,' which are narrow and do not voice and cannot voice correctly a nation-wide banking policy than which we can ask our Senate and our Congress to pass none other.

"I have done what I could as a member of the legislative committee to secure the passage of the McFadden bill with the Hull amendments because it was the edict of this body, and when this body acts again, whether I have an official connection or not, I am going to stand by the majority, and I hope to come up in time for air to get the money."

Preservation of Federal Reserve System Involved

EDWARD ELLIOTT, vice-president of the Security Trust & Savings Bank of Los Angeles, spoke for the resolution.

"It perhaps is not necessary for me as a state bank member, representing a bank which is a state bank engaged in branch banking, and a member of the Federal Reserve System to appear here," he said.

"It perhaps is unnecessary and yet I think it desirable that you should know, in brief, at any rate, the position that my bank holds, and I think perhaps I may be speaking for a number of the other branch banks in California that are members of the Federal Reserve System.

"You will readily understand that in the atmosphere that exists tonight we have felt perhaps that there would be a little disinclination to view the matter from our standpoint, and we do not care to argue nor desire there should be an argument with respect to the merits of branch banking. I take it our position is quite clear on that matter, that this discussion has to do not with the general subject of branch banking—and therefore we do not ourselves wish to introduce it—but with the securing of certain legislation.

"We, as members of the Federal Reserve System and contributing—the branch banks in California—some 30 per cent of the total strength of the Federal Reserve Bank of San Francisco, composed of the member banks of seven states, feel that we have a very vital interest in the preservation of the Federal Reserve System. That is the thing we are most interested in. You will appreciate that we realize that any McFadden bill will restrict us as members of the Federal Reserve System in the exercise of statutory rights which we thought were assured to us under the terms of the Federal Reserve Act when we became members. We do not want to thrash that question out either. I do, however, want to impress upon you the fact that we have, as state banks, so far as I know, never opposed any part of the McFadden bill which would grant to national banks additional rights and place them in a position from which they could compete with us more nearly on terms of equality.

"On the contrary, it is our sincere conviction, and I think perhaps we are more consistent in what we have advocated than some of the avowed proponents of the Mc-

Fadden bill, for this reason—we believe that the full measure of protection to the national banking system, and hence to the Federal Reserve System in which we are vitally interested, granting the argument that it rests primarily upon the national banks, the preservation of the national banks and the Federal Reserve System can be brought about more successfully by going further than any of you are willing to go, but we are willing to have you go that far in competition with us and give to every national bank in every state the same branch banking rights as are enjoyed by the state banks.

"We are perfectly willing to stand for an entire equality in competition, but, of course, we cannot urge you to go further than you want to. That is not our affair. Our interest comes in at two places—where you restrict us in our present rights and where your action will affect the stability of the Federal Reserve System.

"Of course there is a considerable argument that could be made to show that it is not merely branch banking that has furnished the competition on the part of state banks for the national banking system, and I think it would be very well for you who are bankers in the national banking system to remember that fact and not regard branch banking as the one competitive element.

Banks with Branches

"THERE are about 600 state banks in the United States in these twenty-two states that have branches out of a total number of state banks we will say, in round numbers, 20,000, while there are only about 8000 national banks in the United States. It is not the competition of 600 banks that ought to be worrying the national banking system, but we are interested in securing some legislation. Why? Because we are interested in the Federal Reserve System. That is all. Otherwise, we could just be sitting pretty if there were no McFadden bill.

That our interest in this is sincere is evident, so far as my own bank is concerned, by the fact that we have been a member of the Federal Reserve System since 1919; that we have never used it for purposes of rediscounting or borrowing, and it costs us on an average of not less than \$250,000 a

year, which contribution we are willing to make to the general welfare and stability of the finances of this country.

"I have a past which I have not been able to live down, and that is that I spent some ten years of my life in teaching American political history. That may not be worth anything at all, but we seem to be confronted with a situation that will force us to make a choice as to whether we believe it more likely that the House will yield or that the Senate will yield. Each has declared its position with respect to the Hull amendments. I would suggest to you that my study of American political history leads me to the conclusion that the smaller, more permanent political body, which is not subject to such rapid change, is the one which in the long run has its way.

Goebel Resents Insinuations

PETER W. GOEBEL, president of the Liberty National Bank of Kansas City, was vehement in expressing his resentment over aspersions as to the integrity of our legislatures.

"I come here tonight more to protest against the insinuations that legislation can be bought in America; that our members of the state legislatures and Congress are corrupt and yield to the influence of the so-called monopolists," he declared. "That is not American history; that is not American character.

"There seems to be built up here a bugaboo, a nightmare that is going to grip us and squeeze us little fellows out of existence. Now I do not believe the fairness of the American people will ever allow it.

"I am no branch banker. I believe in the independent unit system of banking that has served us so well. Under a central system, as our Federal Reserve System, it can do all that any banking system in the world can do and can do it as well.

"I believe that branch banking does not enter into the proposition really that we are discussing here tonight. I did not go before the House committee or the Senate committee, although I was invited, because as an ex-president of the American Bankers Association it would have been my duty to urge Congress to pass these bills with the Hull amendments, and I never have be-

Give Farm Equipment Every Chance!

"He who makes two ears of corn or two blades of grass to grow upon a spot of ground where only one grew before will deserve better of mankind and do more essential service to his country than the whole race of demagogues put together."

—Jonathan Swift

EARLY in the eighteenth century Dean Swift penned this tribute to the idea of better farming, and the two hundred years that have since gone by have afforded a graphic illustration of his words.

For thousands of years men were slaves of the stubborn soil and dull toil. Less than a century ago came the golden age of farm machines, dating from 1831, when Cyrus Hall McCormick invented the reaper. Then one man began to do the work of ten. A sea of grain fields spread over the land and cheap bread was in the reach of all.

Came new farm machine after new farm machine—a long line of wonder-working mechanical servants which made the American farmer the marvel and envy of the Old World. The effect was far-reaching and tremendous. Youth, energy and initiative were released to the towns; the towns became cities; and a multiplicity of indus-

trial and commercial activities came into being. Returning, the tide of progress established a new standard of living in the small towns and farming communities.

The process is never-ending. Today the farmers and their allies, the farm equipment manufacturers and dealers, are going on to far greater accomplishments.

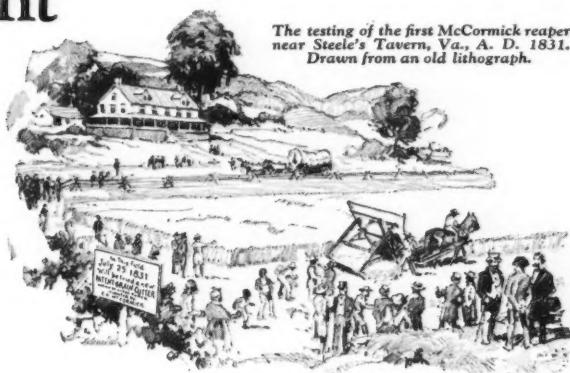
Today it is not enough to grow more ears of corn and more blades of grass. The problem is far more complex. Farm production costs must be held down. Machines must help the single-handed man to control large areas, big crops must be put in and harvested when the time is ripe and with the minimum of costly labor outgo. Machines and power must turn the crop swiftly into the money that buys prosperity for the community. Modern farm equipment must be given the opportunity to *make more dollars grow where only one dollar grew in the old days.*

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lieved in the Hull amendments. Therefore I stayed away, because the Hull amendments, in my opinion, make for the most rapid spread of branch banking that any measure could possibly do.

"It is so easy to say that national bankers would oppose it because they could not enjoy that privilege if the legislature would pass the law. That has not been my experience. A state legislature naturally likes its own child, and a state bank is a child of the legislature. The national bank is a child of Congress, and there would be an

incentive to pass branch banking legislation in the states which do not now have it much easier if it was known that the national banks and the state banks, members of the Federal Reserve System, could not participate.

"Do not fool yourselves. This whole cry about branch banking proposition is simply a cry of 'Wolf!' when there is no wolf. The question is: Shall we have fair legislation? Shall we have legislation that if a national bank in New York can have the privilege of branching and, later on, the state of Missouri passes a branch banking

law, that the national banks in Missouri shall be excluded from that privilege and forced out of the system in order to live? That is the whole proposition.

"The Hull amendments are unfair, and I would almost say un-American. Above all things, for God's sake, do not let us get scared into the notion that the octopus of monopolies can buy up our legislatures and our newspapers in order to put over this sinister purpose. I hope that when this vote is taken that the resolution read by Mr. McKee will prevail."

Mr. Traylor Makes Final Appeal for Resolution

THE closing speech of those seeking to have the resolution upheld was made by Melvin A. Traylor, president of the First National Bank and the First Trust & Security Bank of Chicago.

"There was a famous comedian a few years ago who had a most interesting little soliloquy, 'Life is a funny proposition after all,' he said. 'If there was ever a situation in which a man found himself conscious of the fact that life is a funny proposition after all, I feel that I face that situation tonight.

"I wonder what the probable effect of what we are saying or what we may do will, after all, be. I wonder if it is just as important as we think it is. Whatever the result may be, I have an abiding faith that the time has not come when an honest difference of opinion can disrupt friendship or impede steady progress.

"The work of this old world is too great to permit partisan selfishness to hinder us in our forward march, and the responsibility of the American banker is too large to let any consideration, imagined or real, interfere with the performance of our duty.

"It would have been a mighty easy thing for me to have kept quiet under the circumstances, and it is a very difficult thing to face as many of many friends from the city of Chicago as I see out there and differ with them as I do.

"I am not and I do not believe anyone thinks I am an advocate of branch banking. I never heard of the Hull amendments until they were brought to me by my good friend—peace to his memory—John Phillips, in my room in Chicago, where I was trying to help handle the convention in 1924. He said to me: 'Here is the agreement we have reached and the resolution that will be adopted tomorrow morning.'

"I read it, and he said: 'What do you think of it?' I said: 'John, who agreed to that; who were parties to the conference?' He said: 'The proponents of branch banking and the opponents of branch banking. What do you think about it?'

"I said: 'John, I do not know what the conferees were thinking about, but I would never agree to it as long as I am a member of the American Bankers Association, because, in the first place, it is a breach of good faith. I have not forgotten 1917 and 1918, when we went to Congress for legislation and to the country, to the bankers operating under state charters, and begged them to join the Federal Reserve

System, that their power, pooled with ours, might help win the war; and that pledge was made then, that their rights as state banks, their privileges and functions under their state charters, should never be abridged or suspended, and this amendment is an abridgement of that right.

"Then it is unfair to the national banks. I am not going to argue that point. It is too self-evident, but so unfair is it, John, that, in the third place, it can never be passed through Congress. It is inconceivable to me that the Federal Congress of this free people will ever foster upon its children when it sends them out into the world a shackle that in competition with those institutions which they must meet in the field of adventure, they cannot have a fair chance.

"And fourth, John, if it passed it would not be effective as intended, but effective in entirely a different manner."

"That was two years ago, and I have not changed my mind one iota, and I have not heard tonight either the pro or con that convinces me that those four propositions do not apply to the Hull amendments tonight as they applied to them two years ago in Chicago.

The Chicago Situation

"I LOVE my friends of the Chicago and Cook County Bankers Association. I do not think I have to plead to them my loyalty. I am an honorary member of your organization. I can say to you that there is not in America tonight a stronger group of suburban and outlying banks than those represented by the Chicago and Cook County Bankers Association. Many of them are members of the Chicago Clearing House Association, direct or affiliated, and I think they know that I had something, in a small, feeble way, to do with that movement.

"I am proud of their record, and I hope that time will not come when I will ever have in self-defense to disturb their own peaceful fireside; but their argument and the arguments of the proponents of the Hull amendment are the arguments that are making branch bank sentiment in America; and so long as this controversy continues, and so long as it is urged that branch banking as applied to cities will result in the destruction of the independent units in the city, so long will converts be made to branch banking, and, mark you, there will be no branch banking in this country of ours unless and until the people want branch banking.

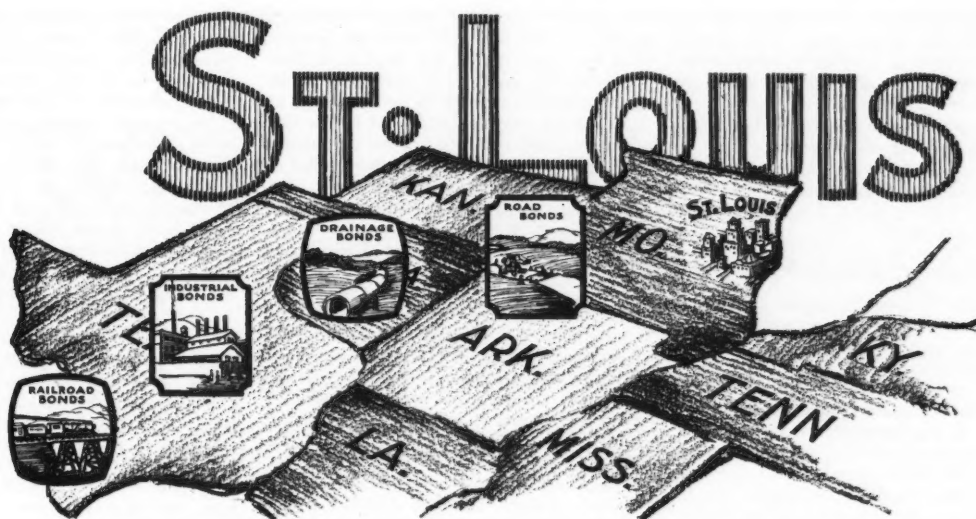
"Tell me, my friends in Chicago, when you say to me that if branch banking came to Cook County, or to the city of Chicago, that your business would be lost by our opening offices across the street from you, how and why? Only because the people would want to do business with us, for no other reason, and you are admitting something that I do not believe. I do not believe we could take your business that way, but if you continue to talk that way long enough, you will convince the people that there is some reason for them doing business with the bigger unit if they have the chance, and they will ask for that chance. And I do not want to see it.

"I hold here, and am authorized to state authoritatively that the United States Treasury believes, that insistence upon the Hull amendments will prevent the passage of any bank legislation in the present Congress; that the extension of the Federal Reserve charter is of infinitely more importance to the present American finance and to the present financial stability in the future than anything else.

"I will be followed by as brilliant a speaker as ever addressed an audience. I have heard him on numerous occasions, and I anticipate with pleasure hearing him again; but there are just one or two thoughts I want you to keep constantly in mind when he is addressing you. Unfortunately for our side, we have not any lawyers who are directors of banks, and we have not any members of Congress who are directors of banks, and we, just poor, plain everyday bankers, are pleading for what we think is the soundest of the two propositions.

"I want you, when you listen to the speaker who follows me, to keep these two things in mind. This argument is not branch banking or no branch banking, and the effects of the Hull amendments are of infinitely more danger to the Federal Reserve System than to the national banks whose privileges they would unjustly and unfairly restrict.

"Reference was made just a moment ago to Mr. Dawes, the former Comptroller of the Currency, and a quotation was read from him on the monopoly of branch banking. Most of the arguments in favor of the Hull amendments are prefaced by arguments against branch banking. If this bill passes, you realize that the advocates of the Hull amendment must realize that no national bank and no state member bank of the Federal Reserve System of any state



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	1924	1925
Industrial Bonds and Notes.....	\$11,253,500	\$20,625,833
First Mortgage, Real Estate, Church and Industrial Loans...	33,023,889	62,362,712
Public Utility Bonds and Notes.....	14,692,300	4,650,000
Joint Stock Land Bank Bonds.....	1,540,000	3,000,000
Foreign Government Bonds.....	3,065,000	None
TOTALS.....	\$63,574,689	\$90,638,545

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in the Union could start a branch beyond the limits of the parent city. That is the thought I want you to keep in mind when you are hearing the address that will follow mine.

"It is not a branch banking bill, but an anti-branch banking bill honestly giving to all classes of banks when the proper unit, the state, acts upon the question, identical privileges. That is what the Hull amendments will not do.

International Trade Involved

"THIS nation hopes to continue to enjoy its international supremacy in commerce and industry. That can never be done unless it continues to enjoy a place of pre-dominance in international finance, and it cannot enjoy a position of international pre-dominance in international finance unless it has somewhere a reservoir of credit and a control of the administration and the extension of that credit upon which drafts may be made in the interest of international industry and commerce.

"We have that today, but if we persist, as was done with the first and second United States banks, in a selfish policy of desire to preserve our own little independence of action, if we persist in a policy that hamstring and cuts the throat of the foundation of the Federal Reserve System—the national banks—then you may be very, very sure that the place of America of predominance in commerce and industry and international finance is gone.

"I am pleading with you tonight not to indorse the McFadden bill without the Hull

amendments, because it will give justice and equality to national banks alone, but because, if it does not pass at this session of Congress, it will not get through the Senate again without amendments being tacked on it, which we were afraid would be the case when we acted upon the subject at Atlantic City last year, and if the recharter bill is thrown back into the hopper of a new Congress, probably less conservative even than this, we will have coming out of it measures like the Strong bill of Kansas and others which will cripple the Federal Reserve System and hamper its freedom of action in matters of finance, domestic and foreign, in such a way that this country with all its wealth, with all its privileges, with all its possibilities, will not be able to maintain itself in the great world markets of commerce, industry and finance because it will have no concentrated power and no place to which it can go.

"This to me from the very beginning has been just a case of square dealing. I cannot see it any other way. As I said in the beginning, I do not think it makes much difference probably what we do or what we say, but I do think, members of this Association, that it makes a great deal of difference what position we take upon issues involving moral integrity, common honesty and square dealing.

A Square Deal

"THE principles underlying the Hull amendments are to me so unfair, fall so far short of just a square, common, honest deal to all classes of people and in all

sections of the country, that I cannot believe that this Association can longer continue to stand committed to something that does not carry those elements that appeal to the conscience and the heart and the mind of every man, woman and child who looks to us for a precept and an example in those characteristics that are supposed to be the cardinal virtues of our profession. Not an advocate of this bill (and I have their testimony here; I can call it off) in Congress but who answered when questioned that they could not defend the principle and only the expediency of this legislation.

"This American Bankers Association cannot afford to stand committed to matters of expediency at the sacrifice of principle, at the sacrifice of conscience, and at the sacrifice of their honest judgment which tells them that right should and must prevail, and that in matters of this kind the state legislature should be the judge of the character and kind of banking that it should have, and that all banks should not only be subject to the rules of suing and being sued, of paying taxes and giving up profits, but that it should also have the privilege of competing on an equal basis with the others."

"I believe that this association faces tonight not so much a question of whether it is favoring branch banking or anti-branch banking as it does one of whether it favors a declaration, clear-cut and clean, in favor of the old-fashioned American principle of equal justice to all and special privileges to none."

Wingo Says Only Issue is That of Branch Banking

OTIS WINGO, vice-president and director of the Bank of De Queen, De Queen, Ark., and senior minority member of the Banking and Currency Committee of the House, delivered the final address of the special session, starting to speak shortly after midnight.

"This is an unseemly hour for a country banker from Arkansas to attempt to talk to a metropolitan audience," he said. "I am not responsible for that, but, notwithstanding the lateness of the hour, I am sincerely glad that I am given an opportunity not only to meet with and greet my fellow bankers but discuss with you a matter that I think is of vital importance not only to the selfish interests that you and I have as stockholders and directors in banks but to the general public, and especially to the industrial stability and growth of our great country.

"I may be in error. It may be that I have been seeing ghosts for ten years when I have been fighting this proposition. It may be that the position that I take against branch banking and in favor of the Hull amendments is an idle, futile thing, as these gentlemen say in one breath, and then in the next breath say it is un-American and violates state rights; but I still retain enough of my experience as a lawyer, practicing law in an adjoining state to that from which I think one of the ablest lawyers (the last gentleman who addressed you) came, to realize that while some men may be mistaken and chase will-o-the-wisps, it is rarely

that you find great groups of men for years and years seeing ghosts.

"And when in conference committee and when on the floor of the House we meet every objection that has been urged to the Hull amendments, they fall back upon the proposition that they are academic; that our fears are unfounded; that there is not any danger of branch banking spreading in America; and, as one member of the Federal Reserve Board wrote me, 'It is nothing but a joke,' and yet I find men fighting here until midnight against a thing that they call a joke, and is based upon idle fears—one group telling us that it has nothing to do with branch banking, and then the other group coming along and telling us, through the distinguished gentleman who spoke from the box over there from Missouri, that it is a branch banking proposition itself.

"No wonder members of Congress get confused, with you bankers taking such contradictory positions.

"You can muddy the waters all you want to. I have heard all these specious arguments for fourteen years as a member of the Banking and Currency Committee. I have heard these gentlemen before meet themselves coming back. I can take this record tonight and I can answer every man who has opposed the Hull amendments, by some other man who has followed him.

"I repeat, camouflage it as you may, cross up your arguments as you will, bring in a new proposition here at the last moment that

no two lawyers can agree on, dodge the issue if you want to, take back what you said in 1924, dishonor your own child, but you can not becloud the issue and you can not fool the House of Representatives.

"You are right. It makes little difference what you do tonight on this abstract proposition you have got here, except it will do this. It will put you in a humiliating position. They will say, 'What do you mean? After milling around for years, you finally reached a compromise agreement unanimously at Chicago that you hailed to the world as the most notable achievement of your convention, and yet you slipped around here and you will not say you were against that child; you just left the poor orphan alone, will not even name it in your will at all, but say 'Just give us another bill.'

"We have enough troubles with the controversies we have already got in conference, and this thing you have got here is not in conference and it is not going to be put in conference.

The Only Issue

"THE only issue that divides you is branch banking, or anti-branch banking. I have heard more men damn branch banking and say they hated it as much as anybody else. I judge men by their acts. When I find them advocating legislation that I know will be the thing that the branch bank lobby wants, I say they are either

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"I thought we settled this thing fourteen years ago, thirteen years ago. I thought when we adopted the Federal Reserve System we solved the problem that was threatening, growing out of threatened monopoly. We had to choose then, and what did we do? I know what I thought I was doing, sitting around the table. I read the other day some of the speeches I made in support of the Federal Reserve bill. I thought that we had as best we could compromised conflicting ideas so we would put on the statute books a banking system, or superimpose upon our American banking system, a machinery that would give us all the benefits of branch banking and save us from all the evils and its curses. I thought that was the object of the Federal Reserve System, but I find now I was mistaken.

"When a few years ago a proposition came up, the national bankers came to us and said, 'We have got to have some relief.' It appealed to me. I want to be fair to everybody. I said that I appreciate the difficulties that confront national bankers in states that have branch banking competing with them. Of course, I could, so when the McFadden bill was introduced, what did it do? It proposed to do what? To authorize that which the law did not authorize national banks to do—to engage in branch banking.

"There may be wise men who think branch banking is a wise thing, but I say those of us who oppose branch banking saw that that authorized the national banking system of the nation—nation-wide practically—to engage in branch banking. Not only that, but we knew in spite of the simple attempted restriction in the McFadden bill that it would be a certain inducement in there. It would be the Federal government injecting itself through the interests of the national bankers into every legislature in the country, to encourage that legislature to change the law of the state in these 26 states, so that they could have branch banking.

"We saw that, so there was opposition that grew up to the McFadden bill as it was originally proposed. We could not get it out of the Banking and Currency Committee of the House, and it was never reported out of the committee back in those years until there was an agreement. A compromise proposal that had been suggested was worked out and would be adopted by the House and recommended by the Committee upon the floor of the House. What happened? Of course, you bankers were interested in it. You had a selfish interest as well as being citizens of the country, interested in the public welfare.

"You got together and, in 1924, you worked out a compromise that became known as the Hull provision, that is the Hull Amendments, inserted into the McFadden bill, balanced off, one checked against the other, so as to bring the warring factors together, no two of them, neither side satisfied, but agreeing that that was the only possible chance to work out a vexing problem, do justice to the national banker and the competition that faced him, and still at the same time check this evil from further spreading into the free territory. It was a trade. The proposal was, to those opposed to branch banking, that if you will let us have it to the extent where the evil has already spread, then we in turn

will guarantee to you that we will put the checks on and keep it right where it is. We will freeze the situation where it is. That was a fair trade, it appeared to me.

First Knowledge Gained

"THE first time it was brought to my attention, it was brought to my attention by a man I believe is one of the greatest public officials ever in office. We do not always agree, but I learned to love him—and that was Henry Dawes, one time Comptroller of the Currency. Go read his report and his condemnation of some of the things that are defended here tonight. He said he did not want to jeopardize the independent banking system. I wish Mr. McFadden, Chairman of the House Banking and Currency Committee, had put into the record the letter, one paragraph of which I accidentally got to read in conference, where he was protesting against that proposal to eliminate all the branch banking features of the bill and pass it. Of course some people were foolish enough to think that could be done. They do not know parliamentary law, the rules of the House or the temper of either body. Mr. Dawes first proposed it. I was not willing even though in the McFadden Bill as originally proposed there was one proposition that appeared to interest me and the banks in which I am interested.

"It is one that affects the country banks throughout the nation and sitting in this theater tonight there is one of the greatest young bankers in America a country banker and ex-president of one of the great state bankers' associations who at my suggestion wrote out that proposition and it was accepted by Mr. Dawes and Mr. McFadden and the other gentlemen on the Committee. It is a thing I worked on for years. I would do most anything to have it enacted. There are other provisions that I like. There are two I never will approve by my vote, although I did not stand in the way. I will stand by my record and help put it over. There are a lot of good things I wanted to put through, and was willing to compromise and make concessions. I thought when you reached an agreement that it was unanimous. It was heralded to the world as a notable achievement. When I found they were willing to put it through unanimously, with nobody but the branch banker complaining, I said, 'Surely we have made a notable achievement,' and I said, 'All right, I'll agree to it.'

"It was up to me to go to the Rules Committee of the House of Representatives. The Rules Committee of the House of Representatives would not give a rule for the consideration of the McFadden Bill up to the time that I went to a majority of the members that agreed with me and told them about the agreement we had to carry out the recommendation you had made.

"I suggested that the amendments of the gentleman from Illinois, Mr. Hull, would be acceptable to me. I stated that while the bill would not suit me and I would not vote for it, I would move heaven and earth to put it through and would state my position in the House. I challenge any man tonight to deny that I have not moved heaven and earth, and almost broken my health, in trying to secure the enactment of the McFadden Bill, and I tell you what has defeated it.

It has been pussyfooting, it has been confusing the issue; it has been the branch bankers going around saying, 'Yes, but I don't know,' and joining the branch bank leaders. Do you wonder that I am sick and tired and disgusted? They broke their word of honor pledged to me. Haven't I a right to complain? If I let my emotions get the better of me, I could read you some telegrams, some literature that would make enlightening reading.

What the House Did

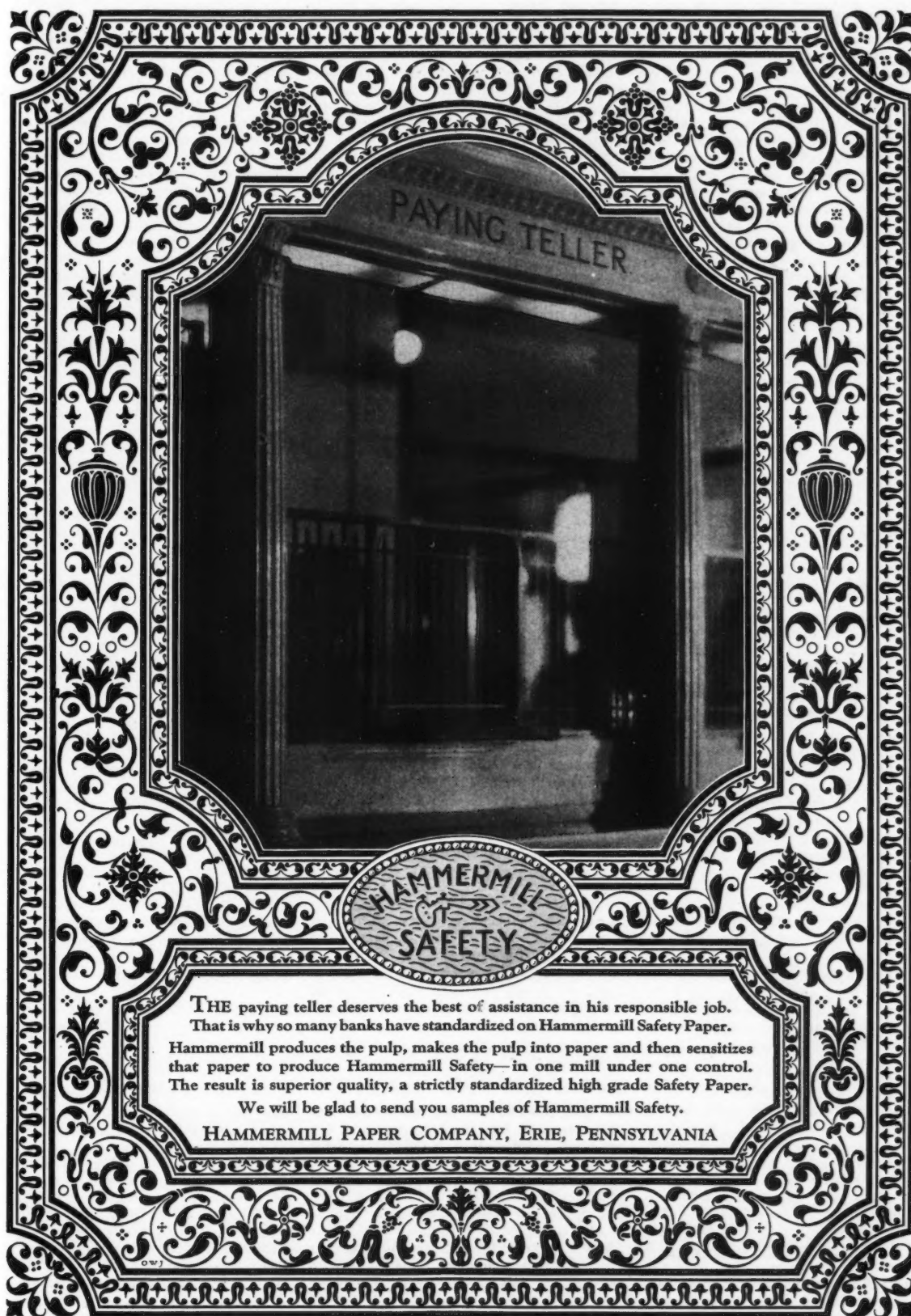
"LET us see what happened. They tell you the House did not consider the Hull amendments. I will be candid. Mr. McFadden said to me, 'Mr. Wingo, when they jump on the Hull amendments, you have to stick up for them.' Read the record. Who was trying to give relief to solve the problem that my friend, Mr. Hull, has stated very fairly? You can not have a fair solution unless it grants relief to the national bankers in States that have it and at the same time check the spread of the evil. That was the principle upon which I was working, and I thought I was carrying out the will of my fellow bankers in the American Bankers Association. We put it through the House. Three-fourths of the votes registered against it in the House were votes against one or two particular provisions in it. As a matter of fact, there never was any danger after you got the Hull amendments that the bill would not pass. We thought that settled.

"It got over in the Senate. They did not pass it. One of my colleagues in the Senate said to me, 'Otis, you are fretting yourself to death. I have been over to see Carter Glass and other members of the Senate.' (This man was against the bill.) He said, 'The branch bank fellows are going to kill that fool thing over in the Senate.' It did not pass.

"It came to the next Congress. The Senate committee did pass or put out provisions that while they accepted certain of the Hull provisions they had made other changes that I thought were in violation of the compromise agreement. That Congress adjourned and it passed out of existence, and then last fall the matter was taken up with me. When returning from the Orient, I landed at San Francisco and there attended a dinner tendered to the controller. That afternoon I was approached with the suggestion that I again take up the McFadden Bill and try to put it through. I said, 'I am not going to do it, because they are not going to keep faith. The branch bankers are going to hoodwink and fool our friends in the Senate and some of them in the House. I am not going to wear myself out on it. Some of your men won't stay hitched.'

Standing "Pat"

"THEN it came back. I talked to Mr. McFadden. We talked about it frankly in the Committee on Banking and Currency. Go read the Record. It had been put on the floor of the House. Henry Steagall (of Alabama) said, 'Mac, are you going to let us be double-crossed if we report this thing out? Will you stand pat?' He turned to McFadden, and he turned to King of Illinois and he turned to Wingo of Arkansas,



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he and other gentlemen who did not want to go ahead and have further hearings and said, 'Gentlemen, will you pledge your word of honor that you will stand pat on the House bill, this compromise including the Hull amendments?'

"We gave our word of honor. I have kept my word of honor. I fought as the representative of that committee and of the House of Representatives to stand by the bill that we agreed to, a bill that could not have gotten out of that committee if that pledge had not been given. Who is keeping bad faith? Who is fair? Let us see.

"The bill got out. It got over on the floor of the house. You have read the record; it passed. When the attack was made upon certain features, go read the records and see who defended it. When the bill was passing the House, the Republican whip called me out into the hallway. He said, 'Look here, Otis, a bunch of us are trying to understand this game that you bankers are putting up in the Banking and Currency Committee. We understand you to say you will not vote for certain things, but you seem to be moving heaven and earth to pass the bill. The daddy of the bill is doing all he can to kill it. What kind of double-crossing game are you putting over on us?'

The Senate Amends Bill

"IT passed the House; went over to the Senate, and you know what happened. How many of you have ever read the Senate amendments? Is there a national banker that can tell me the meaning of Amendment 1 and Amendment 11 as coupled up with Amendment 26? Oh, yes, you know all about it. They fooled one of the brightest lawyers of the House. Beedy of Maine, when he made his speech, said, 'This has not got anything to do with state-wide branch banking.' He is a brilliant, well-trained man, a square, fine shooter. I love him. I showed it to him. I said, 'Here is what the branch bankers tell me. Here is what they say they want it for. They said, 'Wingo, you ought to be for No. 1 and No. 11. We can bring all the state-wide branches into the national system and put them under our guardianship and control.'

"There is the trouble, Brother Traylor. You mean well. Do you think this resolution of my good friend McKee is going to settle it?"

Mr. Traylor: "No."

"Don't you know that it is for this body to give the lie to the rumor that went around Washington that you were not whole-hearted in your endorsement, and say to the Senate we meant what we said? Quit standing in the way! Get out of the way and let the gentleman from Kentucky have his bill with the Hull amendment.

"Oh, yes, you talk about it. I met some gentlemen down here before. I did not know they were for the McFadden bill until I heard them talking about it in the lobbies and read the papers telling the lad back in Washington how to pass the McFadden bill. I thought I had something to do with it, Mr. President. I thought I had been cussed as being the mean fellow who was just blocking the way. I thought everybody wanted to pass the McFadden bill who had tried to work on me to abandon the Hull amendments. I did not hear some of these

gentlemen because I am a little bit thick-headed and country-boy like, I go to my apartment. I do not loaf around the Willard Hotel (Washington).

"Some of these other gentlemen talk about what they did. They were trailing after a man in the Senate who had been trying to kill it, and then he tried to point out to me the beauties of branch banking.

He said, 'Otis, take your city of Fort Smith.' You know what it is when they want to flatter a fellow like me. I remember that gentleman said, 'You are a bright young man.' Let me tell you something. I have been in office and I am just sick and tired to have my judgment clouded. I used to blush when they flattered me. I always put my hand on my pocketbook and watch when a man comes around and says nice things about me.

When this Senator (Glass of Virginia) said, 'Otis, you are a bright boy. You know all about the Federal Reserve bank; quit being obstructive.' I said, 'That is what I am trying to do. I am pursuing the only way that will satisfy the anti-branch bankers. You are the man who is obstructing the way. Why on earth are you for branch banking? You of all men ought to oppose it?'

"Let me give you an illustration. Do you have any manufacturers in the city of Fort Smith?"

"Yes; one hundred twenty-four different manufacturing enterprises."

"What is the capital of your banks up there?"

"We will say \$100,000."

"None of those manufacturing enterprises can borrow more than \$10,000. If you have branch banking and a central bank at Little Rock, instead of those little un-economic things that you call independent unit banks, and had a bank worth \$1,000,000, each one could get \$100,000." But he was opposed to branch banking!

"Let us get to that now, because I have not time to cover all this. If it is unfair, if it is not uniform, that will apply to everything else in the McFadden bill, won't it? Oh, Senator, will you grant to national banks in twenty-two States that which you denied twenty-six States? Why didn't some of you smart bankers say, 'Senator, will you grant to 104 cities in America that which you deny 8000 other cities?'

"Why not say, 'Senator, will you grant to these rich people privileges you won't grant to the poor devils in the cities under 25,000?' Oh, how absurd! Men can take themselves so seriously and get worked up until they really believe they see an awful crime committed. If that is unfair, every statute we have ever passed is unfair, especially every tax bill. You do not tax any two groups alike, do you? Oh, yes, but they say, 'You are going to interfere with the rights of the State.'

"I thought that thing died out in Washington. We laughed about it. It was so absurd, we never expected to see it. We saw it revived out in Los Angeles here. Some of you people from Kentucky brought that to town. How is it going to interfere with state rights. Let us look at it. This state legislature has no more right to fix the charter powers or affect the charter powers of a national bank than the Congress of the

United States has to fix the charter rights of a state bank, has it? Yet they say, 'You must not.' They talk about constitutionalities. Congress ought to control national banks and the Federal Reserve system. The legislature of the state ought not determine their character. Yet under their proposal, what do they say? They say, without any further action of Congress today, a national bank in Kentucky or Missouri or Illinois may have one certain right under the law, and tomorrow without any further action of Congress that national bank will have a different right. Talk to me about state rights. Everybody knows the justification for the privilege granted the national banks and the Federal Reserve system is that we constitute them the fiscal agents.

"Let us get back to the unfair proposition. There are six Hull amendments. The simple proposition is, as I told you before, we say in return for meeting the problem and granting branch banking in these twenty-two states we must check it where it is and not get into the other twenty-six states. You say, 'Suppose the legislature of Missouri comes along and makes a change, are you going to make the people suffer from the competition of state banks?'

"It is a simple proposition. We want to keep the present situation. We do not want any incentive to national bankers to go to a state legislature and interfere with the state legislatures and urge it to amend the law and grant branch banking. I know what happens in Arkansas. A big state banker wants branch banking. Every time he goes to the legislature there are certain big national bankers say, 'You shall not have it. You will get a privilege we have not got.'

"Both of them want branch banking. I have a letter that states, 'Look here, Otis, you are standing between me and branch banking.' I have got a little horse sense left. One fellow that I had not seen for several years said that when I was a member of that body it was as fine a body of men as money could buy.

The Senate Vote

"THAT is the situation. They say the Senate will pass it. How do you know? I challenge Carter Glass to take back his compromise proposition. I believe the Administration is going to say to Senator Pepper and Senator Edge, 'You take that proposition back to the Senate and let us vote on it.'

"I wish I had time to read some of the debates in the Senate. They were told the Comptroller was not consulted. They told us the Federal Reserve Board was not consulted. They quarrel among themselves, and we did not know they got together until we saw it in a little paper over in the Senate. They said, 'Hands off!' I know what the House of Representatives has done. Do not let them fool you. They may be wrong, but do not let them fool you. Every bit of pressure was brought to bear on them by the representatives of your Association, by the publicity committee, or whatever it called itself. These members of the House were bombarded with telegrams until the boys were loaded down. One man got 155. They stated, 'Tell them to give us the McFadden bill with or without amendment.' All right, suppose some fool wired you that



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they wanted prohibition with or without saloons.

"They brought pressure to bear. I told some of my friends about one man who actually made a speech against the proposal which left out the Hull amendment. They brought such pressure to bear that when he voted he voted for it, and then he had a little postscript, 'But, if and, and so forth.'

"They got all the pressure they could bear on the House, and the House stood pat; not only voted down that proposition, but they turned around and instructed the House conference specifically to insist upon the provisions of the House bill, including the Hull amendment. We are tied by those

instructions. As one conferee I am glad to be tied, and I am going to be tied until the pounding of the gavel on March 4th.

"I want to say, if you bring pressure to bear you will maintain your self-respect. If you will not double-cross, but stand on your own motion—what you endorsed in 1924—and bring as much pressure to bear upon the Senate as you brought upon the House of Representatives without getting any results, you can pass the McFadden bill with the Hull amendments before the Senate before Santa Claus comes."

President Wells: "This ends the debate as arranged by the principals. I presume you are ready for the vote. The Chair

will ask in preparation of taking of the vote that the non-delegates on the floor of the theater vacate their seats and find places in the galleries. The Chair will ask that delegates in the galleries and in the boxes take their seats on the floor of the theater.

"The hour is late. I take it that you are familiar with the resolution. We will proceed with the vote."

There were 681 votes cast; for the resolution, 413; against the resolution, 268. The meeting adjourned at one o'clock. And thus the American Bankers Association instructed its officers to seek Federal legislation embracing the terms of the resolution offered by Mr. McKee.

Reducing the Crime Bill to Banking

By James E. Baum, Deputy Manager, Protective Department

THROUGHOUT its fifty-one eventful years of organized and diversified activities, crime prevention and prosecution without compromise have been cardinal principles of the American Bankers Association's warfare against criminality. But in all those years of service, during thirty-six of which the Association has waged a continuous and relentless drive against bank crooks, the chapter ended August 31, 1926, shows the greatest reduction of any year in criminal attacks against member banks.

Crimes of violence were reduced 30 per cent below those reported in the previous year, daylight robberies having dropped from 144 to 112 attacks, and the fifty-seven burglaries of 1925 falling to twenty-nine during the current period. Virtually all of this commendable reduction in crimes of violence is traced to the experience of banks in Illinois, Indiana, Kansas and Oklahoma, where armed forces of vigilantes were effectively organized and directed by bankers. With a material reduction also shown in forgeries, swindles and other paper frauds, the Protective Committee is gratified to report that the general decline noted in the various classes of crimes committed against member banks now finds the fraternity back to the more normal conditions of pre-war days.

Our detective agents caused the arrest of 302 of the 472 bank criminals apprehended during the past year, 208 of these being convicted and imprisoned. In the same period, 121 additional prisoners who were arrested prior to last year were also convicted.

MINDFUL of the disgraceful tide of crime which is exacting an appalling toll in life and property, your Committee is certain that the progress of banking in curbing crime would have been impossible without the full power of organization—local, state and national. It views the results as giving, not alone a striking example of the spirit and sound application of the principles of organization, but proof as well that suppression of crime rests largely upon the will of our people to stamp it out. The re-

sults also suggest the possibilities of more intensive measures being adopted by other national associations of business men, notably those companies that underwrite the losses suffered from criminal attacks.

Acting upon the report of its Joint Legislative Committee on the Coordination of Civil and Criminal Practice Acts—the "Baumes Crime Committee"—the last legislature of New York state passed a number of statutes that are designed to modernize and put teeth into the criminal laws of the state. The effect of the new laws should expedite, strengthen and simplify the administration of criminal justice, increase the terms of imprisonment in state prisons, eliminate many of the abuses upon the granting of bail, restrict the indiscriminate release of second offenders, and provide for statewide collection and dissemination of criminal records and information.

Although the effect of such improvements in laws can only be determined by the test of experience, the Protective Committee recognizes them as imperative to properly deal with criminals after their arrest and considers the sweeping changes in the New York state laws as giving a welcome demonstration of lawmakers using practical means to curb lawbreakers. They at least promise relief to the police in repeatedly running down the habitual criminals, as evidenced by the spectacle on last June 30, when scores of convicts literally crashed the gates of Sing Sing, pleading for easier sentences under the old laws.

BUT modernizing the laws alone cannot restore the order to which this country was accustomed before it became a criminals' paradise. The police forces must also be improved and extended beyond the obsolete systems of guardian protection if they are to match strides with present day crooks and their greater facilities for surprise attack and speedy escape.

These two defects in law enforcement stand out as the major causes underlying crime, and their correction need wait no longer upon further surveys or reports that embrace an endless number of other contrib-

uting causes. Measured by the insurance premiums which bankers will pay this year, plus a larger amount to cover uninsured losses and the banker's share of taxes for maintenance of police forces, criminal courts and prisons, the crime bill to banking exceeds \$40,000,000 yearly. Add to this money cost the annual loss of bank employees' lives—which cannot be replaced—and we gain some idea of the damage which crime inflicts upon banking.

The results of the vigilantes organized by bankers in the Mississippi Valley states and the work of associations in other states toward better law enforcement evidences proof that the crime problem presents two glaring faults that can be rectified without further delay. The Protective Committee therefore singles out the need of more strict and modern criminal laws and greater efficiency and equipment in police power as paramount. It recognizes the revision of criminal laws and better enforcement as vital to banking and cannot conceive of any subject of lawmaking of greater importance to bankers than criminal laws which are suited to conditions of today.

The Committee views this task as a rare opportunity for bankers to lead the way and calls upon every member of the Executive Council, the State Legislative Council and the appropriate committees of State Bankers Associations to give prompt consideration to the most effective plan of carrying out this recommendation.

A report on economic conditions in France and Italy has been prepared by the Commerce and Marine Commission. The recent measures taken to reform the monetary system in Italy are covered in the study. The laws that have to do with the relationship between capital and labor, which received considerable attention in the American newspapers a few months ago, have been fully developed.

The reports reveal that both countries have made considerable progress during the past year.



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Report of General Counsel

By THOMAS B. PATON

THE work of the General Counsel and his assistants during the past year has covered the field of Federal and state legislation and of judicial law affecting banks.

In matters before Congress, General Counsel has worked in cooperation with the Committee on Federal Legislation and on the subject of gift and estate taxes, also with a Special Committee on Taxation of the Trust Company Division. In the furtherance of the legislative work the subcommittees, under the chairmanship of the Federal Legislative Council members in each state, have been increased to a total of 1700 active workers in nearly all of the 435 Congressional Districts in the United States and this body has been a potent force in presenting the views of the Association to the respective members of Congress in their home districts.

During the first session of the 69th Congress which began last December and ended July 3, there were 13,263 bills introduced in the House and 4,537 in the Senate; also 646 Resolutions were introduced in House and Senate and of all the bills introduced over 400 affected banking.

Taxation Bills Watched

ALL these bills have been examined and their progress watched and action taken whenever necessary with respect to particular measures. Three subjects have received special attention.

(1) H. R. 1. The Revenue Act of 1926. By resolution adopted at the Atlantic City Convention, Congress was urged to eliminate from the Revenue Law the Federal estate and gift tax. The policy of the Association was also established to procure a repeal of the capital stock tax, a fitting reduction of the tax on corporation incomes in keeping with the tax on individual incomes, the repeal of the publicity provision, and the elimination of the \$300 exemption of income from building and loan associations. Work along these lines was diligently prosecuted. The General Counsel represented the Association at preliminary hearings before the House Ways and Means Committee Oct. 19 and Nov. 3, 1925, prior to drafting of the new Revenue bill.

The Revenue law as finally passed repealed the gift tax, the publicity provision and the capital stock tax but increased the corporation income tax from 12½ to 13 per cent for 1925 and to 13½ per cent for 1926 and thereafter. The Federal estates tax was not repealed but the maximum rate was reduced from 40 to 20 per cent; the credit of amount of inheritance taxes paid to any state was increased from 25 to 80 per cent and the exemption was increased from \$50,000 to \$100,000. Furthermore, retroactive provisions were enacted making the 1921 rates apply to estate and gift taxes under the 1924 law. Congress, however, refused to repeal the \$300 exemption of income from building and loan associations.

(2) H. R. 2. The McFadden bill. In pursuance of a resolution adopted at Chicago in October, 1924, General Counsel in cooperation with the Committee on Federal Legislation has been constantly active in promoting the McFadden bill with the Hull amendments. These amendments deny future city branches to national or state member banks in the Federal Reserve System in states which, at the time of the approval of the act, do not permit branch banking even though it might hereafter be permitted to state banks. After failing to pass the Senate in the 68th Congress the bill was again introduced Dec. 7, 1925, as H. R. 2, in substantially the same form as it passed the House in the previous Congress. It was favorably reported on Jan. 12, 1926, and on Feb. 4, 1926, passed the House by a vote of 292 to 90. On March 12, the Senate Committee reported the bill, having eliminated the Hull amendments and also inserted provisions allowing branches in territory contiguous to cities.

This form of bill was actively opposed as being contrary to the Chicago resolution and the House form of the bill advocated. The Senate, however, on May 13, passed the bill substantially as reported. When Congress adjourned on July 3, the McFadden bill was deadlocked in conference. The Senate Conferees would not accept the Hull amendments upon which the House Conferees, under mandate, were bound to insist.

(3) Working in cooperation with the Special Committee on Taxation of the Association and also with a Special Committee of the National Tax Association, General Counsel participated in procuring an amendment by Congress of Section 5219, U. S. Revised Statutes which became law March 25. This amendment now opens the way for a number of states, if they so desire, to abandon the property tax on bank shares and substitute income taxation on a basis of equality with other business corporations. Full explanation of the amended law and its effect will be found in an article in the JOURNAL for April, 1926, "Income Taxation of National Banks."

State Legislation

THE General Counsel has cooperated during the year with the Committee on State Legislation and the State Legislative Council in the promotion of measures recommended by the Association. As only nine states held regular sessions during 1926, this made the work somewhat limited. However, nine of the Association measures were passed during the year, either as recommended or in modified form.

A considerable amount of legislation affecting banks has been passed this year in the states holding regular sessions and also in certain states where special sessions of the Legislatures have been held.

In Virginia and South Carolina, Banking Code Commissions have been appointed to codify the banking laws. This is in line

with the general trend of sentiment in a number of states to modernize state banking codes as recently exemplified in the new banking codes of Idaho, Oregon and Wyoming.

The state of Washington has passed a much needed law to the effect that if any person be authorized as agent to draw checks against the account of his principal in any bank or trust company, such bank or trust company shall not be chargeable with notice that any check so drawn is not within the authority of such agent from the fact that the same is payable to or indorsed to such agent. This is one of the protective provisions covered by the Uniform Fiduciaries Act recommended by our Association. The act has already been passed in nine states.

A decision of the highest court of New York that temporary certificates or interim receipts entitling the bearer to bonds when issued are not negotiable because not payable in money and because the promise is not absolute but subject to contingencies, has led the New York Legislature to pass a law making such receipts negotiable. As such certificates pass freely from hand to hand and are accepted by banks as collateral for loans, it might be desirable for other states to pass a similar law. Full information can be obtained from the office of the General Counsel.

Negotiable Instruments Act

GENERAL COUNSEL has recently received a communication from Professor Samuel Williston of the Law School of Harvard University giving the information that the Commissioners on Uniform State laws have appointed a committee, of which the professor is chairman, to draft needed amendments to the Negotiable Instruments Act. The commissioners and the committee desire the approval of the American Bankers Association of any such amendments when drafted, as well as the aid of our Association in having the amendments, when finally adopted, rapidly and uniformly passed by the various state legislatures. Suggestions of needed amendments will be welcomed by the Committee. Members of the Association who may have amendments to suggest are requested to communicate with the General Counsel.

State Taxation

THE General Counsel has cooperated with the Committee on State Taxation in investigating the tax laws and systems of the different states, with the end in view of recommending changes in tax laws and methods. The "Survey of Bank Taxation in the United States," presented in the report of the Committee on State Taxation in September, 1925, and showing in detail how banks in each state are assessed, has proved of considerable value as a source of reference, and printed copies of this survey



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An ambitious attempt has also been made during the past year, under the guidance of Chairman Thornton Cooke, to ascertain the total amount of taxes, classified as to kind, collected in each state for state, county and local purposes from banks, trust companies, corporations, individuals, firms and estates, and also the total aggregate wealth showing the net worth of all the different classes of taxpayers in each state. The object was to ascertain the total tax burden borne by the banks as compared with other classes of taxpayers in relation to the total wealth of each class. In aid of this investigation a detailed chart was prepared, which was circulated among members of the State Tax Commissions and bankers. Much valuable information has been obtained, but nothing approaching the completed details desired. It developed that in order to obtain the full statistics sought, the inquiry would have to be pursued in each county of many of the states. As there are over 4000 counties in the United States, this is considerable of a task. The investigation is being pursued.

Following the amendment in 1925 to Section 5219, United States Revised Statutes, which will permit states, if so desired, to change the system of taxation of banks from the property tax on shares to an income tax on the bank upon a basis of equality with other business corporations, two states, Massachusetts and New York, have now adopted the income basis, and there is prospect that Wisconsin may sooner or later adopt the same basis as its 1925 legislature passed a bill for the taxation of banks upon their income, the Governor's veto alone preventing its becoming a law. Reference is made to the report of the Committee on State Taxation for much valuable information upon State Bank Tax Legislation and the work of the Committee.

State Arbitration Laws

THE fact that over forty state legislatures will hold regular sessions during 1927 provides a splendid opportunity for the urging in the different states of the Uniform State Arbitration Act framed by the American Arbitration Association and recommended by the American Bankers Association, which follows the fundamental principles enunciated in and the language of the United States Arbitration Act as adapted to state legislative needs. This act provides for the settlement by arbitration not only of existing controversies but makes valid, irrevocable and enforceable written provisions in contracts to arbitrate controversies thereafter arising. Under the common law either party to an arbitration may withdraw before the actual award and an agreement to arbitrate a future dispute has been held not enforceable as against public policy. The advantages of arbitration over litigation are so obvious that it is most desirable that the banking and business interests unite in procuring a statutory basis which will legalize and make effective such agreements and submissions.

In April, 1926, just prior to the annual conventions of State Bankers Associations an initial Legal Service Bulletin was issued from the office of the General Counsel containing matters of importance upon which

it was necessary members should be informed without delay. In view of recent decisions placing undue risks and an impracticable duty of inquiry upon banks in cases of checks payable to officers and agents of corporations and deposited to their personal credit, the Bulletin stressed the desirability of giving consideration to the Uniform Fiduciaries Act at the forthcoming Conventions and laying plans to urge its enactment at the 1927 meetings of state legislatures. This Act has been drafted by the Commissioners on Uniform State Laws and, as already said, recommended by the American Bankers Association, and is expressly designed to protect banks against any such risk. The recent amendment by Congress of Section 5219 U. S. Revised Statutes which for the first time opens the way for a number of states, if they so desire, to abandon the property tax on bank shares and substitute income taxation on a basis of equality with other business corporations, was also presented in the Bulletin, with the suggestion that bankers give serious consideration to the desirability of urging upon the 1927 Legislatures a system of income taxation of banks in lieu of share taxation and seek the cooperation of state tax authorities in the working out of a practicable plan. The Bulletin contained other matters of timely interest.

Following the initial issue a very large number of letters were received from members asking that the Bulletin be continued and the Committee on State Legislation and State Legislative Council at the Pinehurst Meeting adopted a resolution which was reported to the Executive Council commending the issue of the Bulletin and asking that the General Counsel continue this legal service if practicable.

A second Bulletin was, therefore, issued in June, 1926, containing a number of important decisions and other timely information, and promise was made that the bulletin would be continued as a means of supplying information to members upon matters in which the office of the General Counsel functions, not at fixed dates but only, and as often, as occasion warranted.

Important Court Decisions

ONE of the functions of the office of the General Counsel is to keep track of important decisions of the Federal courts and of higher courts of the forty-eight states upon banking matters. The number of these decisions which directly affect banks either in the interpretation or application of statutes relating to banking or in the determination of controversies growing out of banking transactions runs into several hundred each year, and the service of keeping bankers informed of the changes or new developments in the judicial law that they may avoid legal pitfalls is deemed quite valuable.

Among the important decisions which have been brought to the attention of members during the year is the Cahan case, where a bank which received on deposit and paid out the proceeds of checks payable to his own order, drawn by an attorney on the bank account of his principal under power of attorney, was held liable to the principal where the attorney wrongfully applied the money to his own use (reported in *Legal*

Service Bulletin of April 20). Another was the decision of the United States Supreme Court in an Iowa bank tax case to the effect that if a national bank could prove its allegation that competing moneyed capital of a substantial amount is taxed at only five mills, a higher tax imposed upon national bank stock is a discrimination in conflict with Section 5219 U. S. Revised Statutes and would be held invalid (reported in *American Bankers Association Journal*, Feb., 1926, page 568). Other decisions were those of the United States Supreme Court upholding par clearance (reported in *Legal Service Bulletin*, June 25, 1926, page 10), and establishing the Federal rule that upon deposit of paper indorsed and credited to a depositor's account, the bank becomes owner, notwithstanding a custom or agreement to charge back in event of dishonor (reported in *Legal Service Bulletin* of June 25, page 2; also in *American Bankers Association Journal*, July, 1926, page 19). This latest case emphasizes the necessity for banks to revise their forms of collection agreement and adopt the Standard Form drafted in the office of the General Counsel. This is all fully explained in the *Legal Service Bulletin* of June 25, 1926.

Since September 1, 1925, 869 Legal Opinions have been prepared in the office of the General Counsel and delivered to individual members upon submitted questions of fact arising in their business. In the preparation of these opinions the new *Digest* of Legal Opinions and Banking Law containing all the opinions upon questions which have been submitted within the last eighteen years has been of material assistance.

The work of revision of the American Bankers Association Credit Forms is still under way and has not been completed.

In the matter of standard terms and conditions for general merchandise and cold storage warehousing to be printed on the back of warehouse receipts, the General Counsel participated last fall and spring in several conferences of representatives of industries interested, held under the auspices of the Bureau of Foreign and Domestic Commerce of the Department of Commerce in Washington. An agreement has been reached upon all such terms and conditions, and they have now received the official approval of the Department of Commerce and of the American Warehousemen's Association. They still await the approval of the American Bankers Association.

General Counsel in his capacity as advisory member of the Insurance Committee has participated in the meetings and work of that Committee, especially in the investigation of the various forms of bankers blanket bonds, the end in view being the ultimate adoption of an improved form.

Mid-Winter Conference

The annual mid-winter Trust Company conference will be held in New York on Feb. 16 and 17 at the Waldorf-Astoria Hotel. The sixteenth annual banquet is to be given on the evening of Feb. 17.

Edward J. Fox, president of the Easton Trust Company of Easton, Pa., will serve as chairman of the banquet committee.

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Federal Legislation Sought

Law Exempting Trust Deposits in Commercial Departments of Banks from Reserve Requirements Among Measures Recommended by Association's Committee in its Report. Repeal of Gift and Capital Stock Taxes in the Year's Accomplishments.

AT a joint meeting in Los Angeles on October 4 of the American Bankers Association Committee on Federal Legislation and the Federal Legislative Council, a motion was adopted that the committee recommend to the Executive Council of the Association for its approval the enactment by Congress of a law which would exempt trust deposits in commercial departments of banks from reserve requirements.

Another motion adopted provided that the committee recommend to the Executive Council that an effort be made to obtain appropriate amendments to the Federal law and the modification of government practice so as to permit the deposit of securities for funds of insolvent national banks, postal savings funds and public money generally, not only with the treasurer of the United States, but, at the option of the bank, with the Federal Reserve Bank or any branch thereof in the district where the depository bank is located.

The annual report of the Committee on Federal Legislation, which was presented by the chairman, Max B. Nahm, vice-president of the Citizens National Bank of Bowling Green, Ky., was as follows:

A Deluge of Bills

IN the Sixty-ninth Congress, 13,909 bills were introduced, of which 895 passed, not much over 6 per cent.

Approximately 500 bills and resolutions have been introduced in the first session of the Sixty-ninth Congress which either directly or indirectly affect banking. These bills in some instances are at cross purposes and if passed would destroy the effect of each other. In other cases, they would destroy that which they seek to help.

Work was begun early in the year by the committee to carry out the resolution adopted at the Atlantic City Convention to urge the elimination from the Revenue law of the Federal estate and gift tax, and also to procure, in the prospective tax revision, the repeal of the capital stock tax, a fitting reduction of the tax on corporation incomes in keeping with the tax on individual incomes, and the repeal of the publicity provision. All these matters were urged at preliminary hearings before the House Ways and Means Committee, October 19, November 3, 1925, prior to drafting of the new Revenue bill.

This Committee was represented at these hearings by its General Counsel; and a Committee of the Trust Company Division, interested especially in the repeal of the Federal estate and gifts taxes and of the publicity provisions, was represented by F. W. Denio and Raymond H. Berry. Later, when the Revenue bill was introduced we also

urged that the \$300 exemption of income from building and loan associations be stricken out, or, failing this, that there be accorded the same exemption to deposits of savings in banks.

The law as finally passed, repealed the gift tax, the publicity provision and the capital stock tax, but increased the corporation income tax from 12½ per cent to 13 per cent for 1925, and to 13½ per cent for 1926 and thereafter.

The bill by increasing exemptions relieves entirely some two and a half millions of people of Federal income tax. Whether this is wise or not, the increase of income tax of corporations which manufacture practically all the necessities of life that the people consume, puts the tax right back on them again, probably in a greater amount. The stag casts his horns only to grow them again, a bit larger each year.

The estate tax was retained in modified form, reducing the maximum rate from 40 to 20 per cent, and increasing the credit of amount of inheritance taxes paid to any state from 25 per cent to 80 per cent, and the exemption from \$50,000 to \$100,000. Furthermore, retroactive provisions were enacted, making the 1921 rates apply to estate and gift taxes under the 1924 law. Congress, however, refused to repeal the \$300 exemption of income from building and loan associations and relief from this unjust provision must now come, if at all, through independent legislation.

This committee was active in promoting the McFadden bill H. R. 2 in pursuance of the mandate of the Chicago Convention in 1924.

This committee represented by its General Counsel and working in cooperation with the Special Committee on Taxation of our Association, has procured an amendment of Section 5219 United States Revised Statutes which makes it practicable for many states to adopt a system of income taxation of national banks on a basis of equality with other business corporations as a substitute for share taxation. After a hearing before the House Banking and Currency Committee, the bill amending the law was signed by the President on March 25. This subject will be more fully explained in the report of the Special Committee on Taxation.

Aid Sought for State Banks

THE Association for some years has been endeavoring to secure the passage of a law to amend Section 9 of the Federal Reserve Act which would permit state banks and trust company members of the Federal Reserve System when designated for that purpose by the Secretary of the Treasury to become depositories of public moneys and also employed as financial agents of the gov-

ernment. A bill to this effect was introduced by Congressman McFadden (H. R. 7760) on January 15, 1926, but has not as yet been reported.

The Watson Parker act was passed, substituting for the Railway Labor Board a Mediation Board, to provide prompt adjustment of disputes between railroad executives and employees.

Special acts have been passed authorizing the erection of a building for the Baltimore branch of the Federal Reserve Bank of Richmond at a cost not to exceed \$1,025,000, also buildings for the Detroit branch of the Federal Reserve Bank of Chicago and the Buffalo branch of the Federal Reserve Bank of New York at a cost not to exceed \$600,000 each.

The code of law of the District of Columbia has been amended by striking out from Section 1155 the provision that no married woman shall have power to make any contract as surety or guarantor or as accommodation drawer, acceptor, maker or indorser.

Important changes have been made in the Federal bankruptcy law, aimed at dishonest bankruptcies and designed to make it more difficult for a dishonest bankrupt to obtain a discharge. To the present definition of the word "corporations" has been added "joint stock companies, unincorporated companies and associations and any business conducted by a trustee or trustees wherein the beneficial interest of ownership is evidenced by a certificate or other written instrument." The object of this amendment is to include within the scope of the operation of the bankruptcy law, beyond any doubt, those businesses conducted under the guise of so-called trusts. Other amendments have for their purpose the prevention of frequent evasions of the bankruptcy act, due largely to inability to prove that a sale which has occurred within four months prior to bankruptcy was a final disposition of debtor's property. Another amendment is designed to protect the estate during the term of four months prior to bankruptcy against seizures through legal proceedings as well as against preferential payments out of the estate. The purpose of another amendment is to place the voluntary bankrupt on a parity with the involuntary bankrupt with respect to the filing of schedules and serves to eliminate the excuse for collusive petitions. The adoption of this amendment will do away with many so-called "voluntary-involuntary" bankruptcy proceedings. Still another amendment will prevent a debtor in bankruptcy from making an offer of composition which ipso facto stays further proceedings, very often to the detriment of the creditors.

(Continued on page 401)

County Credit Bureau Simplified

By M. A. GRAETTINGER
Secretary, Illinois Bankers Association

Unit System as Developed in Illinois is Easily Operated and Quite Successful. Cost of Organization is Low, As Is That of Maintenance and Management. Six Counties in the State Have Adopted the Plan. Feasible in Any Section of the Country.

IN discussing the development of County Credit Bureaus it is not my purpose to go into any of the arguments pro or con. We are thoroughly familiar with all of the reasons why bankers should exchange credit information and cooperate, and we are also in a position to understand the diffidence with which bankers take hold of beneficial projects by groups, although individually they will readily admit the desire, necessity and advantage.

A little review of the history of credit bureaus will not be out of place at this time. Just when or by whom it was first agitated is lost in the dim past. We do know that about fifteen years ago there were several unfortunate bankruptcies in Scranton, Pa., and considerable loss might have been avoided had the bankers exchanged credit information, and it was then discussed somewhat, but nothing came of it. Later, about 1917, the banks in Cleveland, Ohio, established an organization for the clearing of credit information, and some time in 1921 Richmond, Va., took it up.

About then it became a subject of quite some interest to the banks of Illinois, and a committee was appointed to work out a plan. They made their report that one urban and one rural test be made. Our state capital, Springfield, was designated for the urban test, which was to consist of four surrounding counties, and Greene County was selected for the rural test. Greene County made a start, but did not go through with it, while practically nothing was accomplished on the urban test. However, the effort was meritorious and considerable good resulted, but the problem which existed then, and which is preventing a widespread adoption of this idea today, was voiced in the report of our committee at the following state convention, in which they said: "The committee is convinced that the process of education is a slow one, especially to the rural bankers, as there seems to be a general reluctance on the part of the bankers to permit their affairs to be mouthed, especially by one of their own number."

The work of that committee was so valuable that it was decided that the effort be continued, with the result that in June, 1924, our first working county credit bureau was established. This was the famous Marshall County Credit Bureau, and in the spring of 1925 it got going right, and about that time Jasper County, Missouri, got started.

In presenting anything that is new, the task of the pioneer is hard. There is no better selling argument in the world than that of a number of satisfied users who can be named and who would testify as to their

satisfaction, so the bankers throughout the United States have waited for the pioneer county, and in the past year five other counties have organized in Illinois, and a number are just about ready.

Ideas for Organization

IN this development we learned some good points which we can pass on. We learned that it was absolutely necessary to have a foundation upon which to build, and fortunately for Illinois that foundation was pretty well established in the form of our county organizations, which we call "County Federations," these being an integral part of our association organization. Without such organized groups, it would be a difficult task to get the bankers together to put over such a startlingly new idea as a credit bureau, so the first thing that must be done is to organize the bankers into county groups and through these county groups all projects of value and importance can be discussed and local applications made.

The next thing we learned was that the ideas for organization of credit bureaus as we had worked them out, while simple in fact, seemed quite cumbersome, complicated and expensive, and it was very necessary to simplify them at least in presentation, and after Marshall County got going good the operation was carefully observed, and as a result we have prepared a most simple presentation that so far has succeeded in breaking down the fear that the plan would be costly to inaugurate and maintain and would require a lot of effort on the part of the bankers themselves.

At first we had a regular constitution and by-laws for a separate and distinct organization within the county, a plan for the reporting of credit information, the maintaining of a central file for that purpose and a series of almost daily correspondence between the banks. The present plan is simplicity itself. It consists simply of each interested bank making a resolution in which it agrees to cooperate in the movement, furnish a list of borrowers and indorsers without reservation and pay their pro rata cost. The next step is for each member bank to list alphabetically on different colored cards its borrowers and indorsers, without any information whatever except names and addresses, and a key to identify the reporting bank. These are then filed by the manager of the bureau and a list made of all duplications but only of duplications. Where there are duplications by several banks in one town, these bankers get together and iron out those in which they are interested. Where the dupli-

cations are general, a meeting is held and these items are straightened out.

The cost of installation to a county of about fifteen banks for supplies and postage is somewhere around \$100; the cost of maintenance as far as supplies and equipment are concerned is very small, and the total cost is entirely dependent upon the remuneration of the management. We find that in most counties the work involved is so slight that a junior officer of one of the banks will take it on for about \$500 a year, which cost is distributed in proportion to the loans made by the member banks and, therefore, forms a very small annual charge for this protection.

Now that we have six counties in actual operation in Illinois, we have provided the best selling talk that can be had and that is that six counties are using it and are very well pleased with the results. As a result many more will be established in the near future.

The following method of procedure in establishing a county credit bureau in addition to an outline of the plan of operation, has been worked out with the underlying thought of simplicity and is based upon the experience of counties now having a Credit Bureau in successful operation. The plan is not considered perfect in every respect, but is intended only to assist those counties contemplating a similar organization in drawing up a scheme that would be suitable to conditions peculiar to their respective communities.

The suggested method of operation is similar to that practised in Marshall County. The mere fact that over six hundred duplications were uncovered on the first report on borrowers should convince most bankers of the value of a credit bureau.

Whenever an action in bankruptcy has been reported in which a bank appeared as a creditor, invariably, one or more other banks were unfortunately involved.

In addition to obtaining information concerning duplicate loans, this bureau has been instrumental in overcoming the keen competition and minor jealousies among bankers which existed prior to its establishment. The word "friend" has been substituted for "competitor" when one banker speaks of another. Such a condition can be brought about in other counties where the best spirit of cooperation in the solving of mutual banking problems does not now exist.

The first step in the installation of a credit bureau is the stimulating of favorable sentiment among bankers of a county toward such an organization. This can be better done by having the subject presented at a meeting

(Continued on page 389)

The Condition of Business

There Is Not Sufficient Evidence to Decide Whether the Trend Has Turned Downward. No Grounds for Believing a Major Depression Is Approaching. Trend in Building and in Steel. Various Aspects of the Cotton Situation and Plans for Aid.

THE outlook for business has recently taken on an unusually interesting aspect. After the talk of prosperity for so long, we find a number of unfavorable factors now developing. The situation hangs in the balance and at the moment there is not sufficient evidence to decide whether the trend has definitely turned downward.

This does not mean to infer that anything very serious has taken place so far; on the contrary, the wheels of production and trade are moving faster and more smoothly today than ever before. There seem good reasons, however, to believe that some of the key industries have been operating at a higher rate than can be kept up indefinitely and that we are destined to have somewhat less active business during the next year or so than prevailed during 1925 and 1926.

If the slack occurring in this line and that can be taken up by merely allowing the industrial machine to slow down slightly, it will not be long before a workable balance is restored. Certainly there are no grounds for believing that a major business depression is approaching.

Of the unfavorable factors referred to, the fall in cotton prices has attracted the most attention. It has been variously estimated that the consequent loss to the cotton producers will be several hundred million dollars, that present prices are below the cost of production and that many growers will not even recover the value of seed and fertilizer purchased—in many cases not yet paid for. There is a widespread movement on the part of individuals and associations to hold the cotton for higher prices and to curtail next year's acreage.

No one can doubt that this has been a blow to the South, and considering also the fact that tobacco prices have recently experienced a severe break, which was obscured by all the excitement about cotton, and the set-back in realty expansion caused by the Florida hurricane, that section will have a greatly reduced purchasing power. Conditions have already been reflected by a falling off in wholesale and retail sales, and campaigns have been started urging a drastic curtailment in purchases of automobiles and other articles on the installment plan.

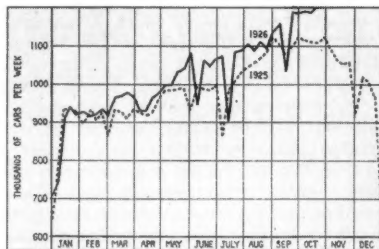
In the industrial sections of the country we have, generally speaking, a productive capacity somewhat above normal requirements and strenuous competition among manufacturers for markets that will absorb more and more of their merchandise. Stocks of goods are ample and prices have been working to lower levels all year.

In building construction we are surely coming closer and closer to the time when

the people who have been predicting the end of its boom for so long will have their prophecies fulfilled by facts and figures; nevertheless, the effect on other industries supplying building materials will be gradual because of the completion of work already in process.

If the key industries should be thrown into a state of overproduction, ruthless competition and price cutting, and deficits from operations, then the whole business organization would have to mark time for a while until the excessive producers and inventories had disappeared. Then one might be justified in using the term "depression." But as a matter of fact such a disruption does not seem imminent in any major industry. The iron and steel industry is continuing to operate around 80 per cent of capacity and if there is no more than the slight tapering off in business during the last few weeks that is expected, total production of steel ingots for 1926 will be around 47,500,000 tons, comparing with 44,100,000 tons in 1925, the previous record year. A slight stiffening in pig iron and finished steel prices has occurred but there appears no basis for anticipating any large advances. Earnings of the leading companies were very good during the third quarter and the reports for the full year will doubtless be the best in their history.

The automobile industry continues to give a good account of itself and apparently is too busy to listen to all the unfavorable things that are being said about it by outside bankers and economists, who for years have warned the industry that it was expanding at too fast a rate and that the growth of installment buying would eventually cause its collapse. September production of passenger cars and trucks in this country and Canada amounted to 410,000 vehicles, which is lower than the 439,700 in August but considerably above the 334,700 in September, 1925. It is of interest to note that production for the first nine months of 1926 aggregated 3,670,200 vehicles, or 15.2 per cent more than for the corresponding period of 1925.



Railroad car loadings reached 1,210,163 for the week ended October 16, a new high record

It this connection it might be mentioned, as has been done a number of times before, that in the motor industry the sensational gains of certain of the larger companies this year have been at the expense of their less fortunate competitors. The interim reports of some of the "weak sisters" in the industry make very discouraging showings indeed.

Rubber and Oil

AS to rubber and oil, it may be said that these two allies of the motor industry are both in a satisfactory condition. The volume of automobile tire business for the third quarter of the year was the best ever enjoyed and made up for the slow spring trade caused by the falling rubber market and the unwillingness of dealers to purchase for stock, also the cold, rainy weather. Statistics for August just published by the Rubber Association of America report total production of pneumatic casings as 4,404,000, the largest month in history; shipments were 5,212,000, also a record, and finished inventories in manufacturers' hands at the end of the month were 7,299,000. The latter figure may seem high, and it contrasts with but 5,446,000 in August, 1925, but as compared with the 1926 peak figure of 9,345,000 reached on April 30 it represents a decrease of 21.9 per cent.

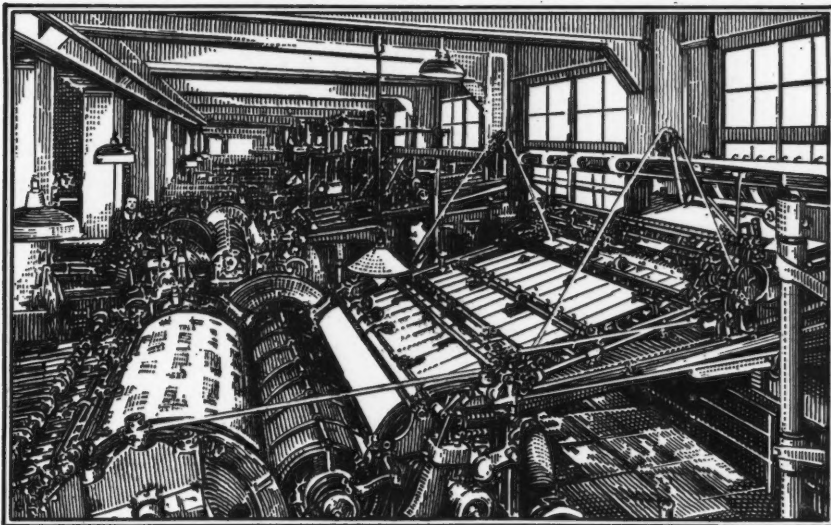
Total shipments for the first eight months of the current year were 30,128,000, or 4.2 per cent less than last year, but September and October were such good months that the full year will doubtless come up to 1925.

With crude rubber prices apparently stabilized at slightly over forty cents, profits of the leading tire producers showed distinct improvement in the September quarter, and for the second half of the year should be much better than during the first half; however the total 1926 earnings will fall below the level of 1925.

In the oil industry a situation exists very similar to that of tires, namely, rapid growth in demand being accompanied by still more rapid increases in production, and heavy inventories.

Domestic crude oil production under the stimulus of higher prices has been increasing, and whereas last February it averaged around 1,950,000 barrels daily, it reached a 1926 high record of 2,286,250 barrels daily for the week ended October 23. Gasoline output by the refineries has been increasing all year and the August production of 25,420,000 barrels was the highest in history, as was likewise the August domestic consumption of 26,280,000 barrels. The export demand continues heavy and stocks on hand at the end of the month were 34,550,000 barrels, which as compared with the peak figure of 46,100,000 reached last

STORIES OF COLUMBIA SERVICE—No. VIII
PRINTING AND PUBLISHING—A HIGH-RANKING OHIO INDUSTRY



A section of the press-room in a prominent Cincinnati printing establishment showing the intricate mechanism required for two-color press work

Under the influence of the printing press—distances vanish, knowledge spreads, business grows. The daily newspaper moulds public opinion. Books and magazines provide education and entertainment—factors vital to social progress. The nation's bill for products of the printing and publishing trades, fifth industry in importance in this country, exceeds \$2,000,000,000 a year.

The wealth and industrial strength of Ohio are reflected in the tremendous output of its printing and publishing establishments. Among our states it ranks fourth in production of newspapers and periodicals, fifth in book and job printing—its annual income from both sources being estimated to exceed \$150,000,000. Besides these, moreover, practically every other classification is represented—manifold, loose-leaf, tariff, art and service, color, direct-by-mail, music, trade, legal and foreign-language printing; labels, tickets, menus, sample cards, greeting cards, blank books, catalogues and posters; trade ruling; book and pamphlet binding; machine trade and advertising composition. Cincinnati, with its varied and impressive typographical output, is particularly noted both for the manufacture of religious periodicals and of playing cards.

In the widely diversified field of print production the cities of the Miami and Ohio Valleys represent distinct leadership and achievement. Columbia System, in supplying light, heat and power to the printing and publishing trades in this territory, furnishes indispensable service to an indispensable industry whose influence is world-wide.

This is the eighth of a series of advertisements in which we are presenting to you detailed information of the services performed by Columbia System companies for these communities, their industries and their homes. Investment in Columbia System securities is, in a real sense, investment in the marvelous Ohio Valley.

COLUMBIA GAS & ELECTRIC COMPANY

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March 31 represents a reduction of 25 per cent. They are actually the lowest since nineteen months previous, and relatively are below normal, considering the large increase in demand year by year.

Much comment has been made over the price cuts announced on gasoline and crude oil during October, and the fact that large stocks in storage will have to be carried over another winter. However, most people can hardly agree with the opinion expressed in some quarters that a disastrous price-cutting war among the powerful concerns is inevitable and that the outlook for the industry is a gloomy one. As long as we have over 20,000,000 automobiles, trucks and buses in the United States and their number is increasing daily, the oil industry can always handle the storage of a couple of months' production.

The day may come in the not distant future when these apostles of gloom will find a genuine need for their fears and sympathies—Mr. Everyman, the motor car owner, when he at last causes consumption to overtake production and thereby creates an oil shortage and shortage prices!

The Cotton Situation

REVERTING to the cotton situation, which holds the center of the stage, there has already been so much said in the newspapers about the causes, effects, remedies, etc., that there is no need in this discussion to go into these details again. It may be of value, however, to re-state some of the fundamental facts in the situation and to examine rather carefully the corrective measures that have been proposed.

In the first place, if one considers the yield of cotton for a few years back, and the acreage planted, it will be realized as the most natural thing in the world that an acreage this year greater than ever before planted, and following one of the largest crops in history last year, might produce a surplus above requirements and result in lower prices. Below are the government statistics for the last fifteen years, the 1926 figures being taken from the estimate published October 25:

Cotton Acreage and Production

Year	Acreage Picked 000 omitted	Production —Bales 000 omitted	Yield —Lbs. Per Acre
1912.....	34,283	13,703	190.9
1913.....	37,089	14,156	182.0
1914.....	36,832	16,135	209.2
1915.....	31,412	11,192	170.3
1916.....	34,985	11,450	156.6
1917.....	33,841	11,302	159.7
1918.....	36,008	12,041	159.6
1919.....	33,566	11,421	161.5
1920.....	35,878	13,440	178.4
1921.....	30,509	7,954	124.5
1922.....	33,036	9,762	141.5
1923.....	37,123	10,140	130.6
1924.....	41,360	13,628	157.6
1925.....	46,053	16,104	167.2
1926.....	47,207	17,454	176.7
15 year average ..	36,605	12,659	164.6

The price of raw cotton has been declining all year and on October 25 reached a 1926 low of 12.01 cents (December futures on New York Cotton Exchange), which compares with 17.78 cents on September 1 and 13.80 cents on October 1. This is the lowest for over five years or since the post-war depression. The record low of the last quarter century was in December, 1914, when it averaged 7.53 cents, the 16,000,000

bale crop of that year coming on the market just as the outbreak of war disorganized the regular foreign buying and the Cotton Exchange was forced to close for two months.

Then came the movement to "Buy a Bale of Cotton," but it was unnecessary. Consumptive demand not only brought a recovery in price but carried it soaring up to 20-30-40 cents and above.

A good deal of fluctuation in prices and speculation in the commodity has attended the growth of the cotton crop this year. The people who were on the wrong side of the market, and there must be one party on each side of every contract, were naturally not happy at the outcome, and as usual looked around for somebody to blame. The two chief causes for their losses, it was found, were the "inaccurate government reports" and "short-selling by speculators," which is obviously a much better explanation than to say "poor judgment" and "bad luck."

The government estimates that appear twice a month have been revised widely, it is true. That does not necessarily indicate any lack of accuracy on the part of the Department of Agriculture but rather a recognition that prospects may change for the better and the worse a number of times during the season and that only as the time of actual picking approaches can one measure with exactness the effect of soil, weather and of insect pests.

Any cotton merchant or mill owner or trader who criticises the official estimates, which were 15,635,000 bales on June 25, downward to 15,166,000 on September 1, then upwards to 17,454,000 on October 16, might well consider that these figures have turned out to be much more accurate than numerous private estimates, which insisted that a crop of around 14,000,000 bales was all that could be expected.

When the recent price decline took place an appeal for help was made to the government at Washington, which announced that \$30,000,000 of treasury funds would be immediately available to extend credit secured by cotton, acting through the Federal Intermediate Credit Banks and ordinary commercial banks, and it is understood that the government will make considerable more funds available as needed.

From the published accounts of this credit, it is not entirely clear why the government should be called upon, or why it should have responded so quickly. While the precipitate fall in cotton prices is most regrettable to the public at large, it is after all a matter of direct concern only to the cotton growers, merchants, mills and bankers. The idea seems to prevail,* however, that any line whose prosperity is threatened should apply at Washington for government assistance, and appropriations, if need be, from the overflowing treasury.

Does the Government Owe Every Industry a Living?

THIS is not meant as a criticism of the cotton interests particularly, but to raise the general question of government aid of this sort. If indulged in very many times it establishes a precedent which may have serious consequences; it endorses the idea

that "the government owes every industry a living."

Such a program, carried to its logical extreme, means that when the government has given special grants to every industry it has helped none, for what is government but the sum-total of all industry? Such a program is like general wage and price increases, one group following another around the circle until everybody has had his wages raised and yet is, relatively, no better off than before. The program is also like the tariff carried to its extreme, which means that one group secures a tariff on its product by promising a tariff to other groups, until everybody has a tariff which has raised the price of his own product but finds that everything else has increased in proportion.

A second question which may be asked is whether the exponents of the plan to hold cotton are justified in their assumption that prices will recover and that next year's crop will be smaller. Some people may answer this with the assurance that, of course, cotton prices will recover and that next year's acreage will absolutely be reduced, perhaps 25 per cent. This is mostly assumption, however, and is made the basis for starting the cotton farmer into speculation, for such it is for the grower, merchant, mill or anyone else who takes a position in the market with the hope of profit from favorable fluctuation. If the farmers are encouraged to hold their cotton, borrowing against it to pay off advances for seed, fertilizer, labor, etc., and it later does go up in price, well and good. But if it should not, and next year's crop should also be large, the farmer would be in debt for the money borrowed, would have lost the interest paid out during the year, lost the expenses incurred in storage, insurance, deterioration, etc., and be forced to sell next year's crop on an over-supplied market.

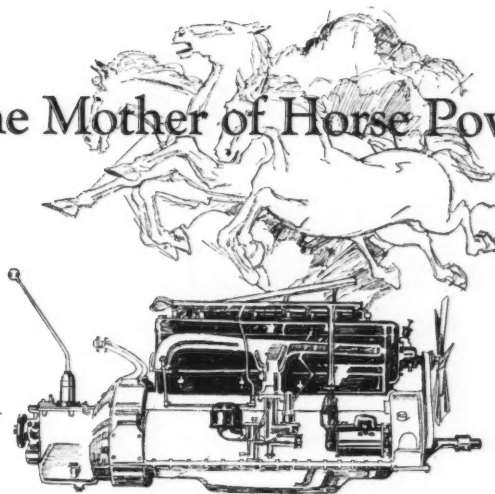
Experience has shown that the producers and dealers who limit their operations to production or merchandising and hedge their position to eliminate the possibility of speculative gains or losses, have in the long run been the most successful. They may have missed golden opportunities for large profits, but they have never gone broke bucking a market. The cooperative marketing associations that have been most useful to their members and most highly regarded by their bankers are those which market their product as rapidly as practicable each season, rather than holding for a speculative rise.

A third question which may be raised is the effect of foreign production, for cotton is a world commodity and it is well known that other consuming countries are trying to raise more of their own requirements, England having greatly built up production in recent years in India, Egypt and other parts of her Empire.

Farm Legislation, and Foreign Relations

A FOURTH question of interest to consider is the probable political effect during the next year caused by the cotton growers having overproduced, gone to the government at Washington demanding aid, and received it. Will the agricultural States of the South now be more inclined

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The Robert Morris statue at Philadelphia

to join the radical farm bloc of the Middle West in demanding that the government undertake to artificially increase farm prices by purchasing the excess production and dumping same in foreign markets? And if such be fair for cotton and corn and wheat, why not for the surplus of all other producers as well?

A final question which has arisen but received scant attention, is whether it is quite consistent for the government to extend credit to individual producers and merchants in a particular commodity for the purpose of holding it off the market and thereby forcing higher prices. Americans have had several instances of foreign governments using their resources in this way to control the price of various commodities, such as rubber, coffee, nitrates, sisal, iodine, etc. As we were large purchasers we resented such manipulation and our denunciations of the practice were loud and bitter. Might the plan to boost cotton prices by means of treasury funds be considered by our foreign customers as a similar device to control markets?

The outlook for cotton is really not so bad as might be supposed, for the big cotton mills are buying very freely at what they feel sure are reasonable prices and the staple is moving freely into export trade. Now that the bad news of the October reports is out, the trade seems to be recovering from the hysteria that spread like an epidemic this fall. Cotton mill operations here are speeding up, the domestic consumption in September amounting to 571,100 bales compared with 500,700 in August and 483,300 in September, 1925.

If the campaign to hold cotton is accompanied by actual curtailment, well and good. But if the situation were left entirely alone, economic forces would automatically force curtailment and raise quotations upward again as soon as justified.

The yields of the other agricultural crops except cotton are given in the following table, the 1926 figures being the October estimate. The spring wheat crop was disappointing but the winter wheat harvest was the largest for several years. Oats, barley, rye, flaxseed and hay are all

under last year's figures, and have been damaged from the storms and floods in many sections. The fruit crops—apples, peaches, pears—have all been abundant this year but of low average quality, and have depressed the markets to such an extent that many producers find that the prices received are no more than equal to the cost of growing, picking and crating.

Crop Production

	000,000 omitted				
	1922	1923	1924	1925	1926
Apples, bu....	202.7	202.8	171.3	171.7	234.3
Barley, bu....	182.1	197.7	178.3	217.5	196.8
Beans, bu....	12.73	16.00	14.86	19.50	17.00
Buckwheat, bu.	14.56	13.97	13.28	14.65	15.60
Corn, bu.....	2,906	3,054	2,313	2,905	2,680
Flaxseed, bu....	10.38	17.06	31.71	22.02	19.49
Hay, tame, tons	95.88	89.25	97.77	86.70	83.20
Oats, bu.	1,216	1,300	1,523	1,512	1,282
Peaches, bu....	55.85	45.38	54.12	46.57	67.24
Peanuts, lb. ...	683.1	647.8	748.9	694.1	684.9
Pears, bu.	20.71	17.84	18.87	19.82	25.02
Potatoes, bu. ..	453.4	416.1	425.3	325.9	350.8
Rice, bu.	41.41	33.72	33.25	34.30	39.44
Rye, bu.	103.4	63.08	64.04	48.61	41.87
Sweet pot., bu..	109.4	97.18	54.56	62.49	78.96
Tobacco, lb. ...	1,247	1,515	1,243	1,365	1,294
Wheat, bu.	867.6	797.4	862.6	669.4	839.8

Copper, Silver and Coal

IN the mining industry three developments of the month are worthy of note. One is the announcement that the association of copper exporters, which had been in the negotiation stage for many months, has completed its organization under the title of Copper Exporters, Inc. With the approval of the Federal Trade Commission under the Webb-Pomerene Act, this association will bind together practically all the large producers here and abroad, controlling over 90 per cent of the world's output. The stated purpose of the organization is to eliminate harmful speculation, check wide fluctuations, sell direct to consumers, facilitate export trade, and the like. The copper trade greeted the news with enthusiasm, whether located at New York headquarters or in the mining towns of Arizona, Utah or Montana, and feels assured of better times ahead. This organization succeeds, in a sense, the Copper Export Association, Inc., which was formed in December, 1918, to handle the excessive stocks on hand at the Armistice.

The second point to which attention might be called is the continued decline in the price of silver. The bullion is now selling in the New York market around fifty-two cents per ounce, compared with an average of 71.11 cents in October, 1925. This is the lowest for over ten years. The effect on earnings of the large mining companies has already been felt and the situation with such companies as produce silver primarily, instead of as a by-product of other metals, has become acute. The cause is, of course, the heavy production of the metal combined with lessened uses for silverware, jewelry, etc., also India's having recommended a gold exchange standard of currency and the possibility that China, the last great stronghold for silver, may take some similar step eventually.

In the bituminous coal industry the continuance of the British coal strike has caused new high records to be made on production and shipments of soft coal, and prices are double what they were a year ago. This traffic helps the earnings of those railroads known as the "coalers," but it should not be forgotten that the situation after all can

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Overnight Mail is the Shortest Transit Distance Between Two Points

Our continuously operating-
Transit and Collection Depart-
ments make the "shortest,"
shorter still by:

Receiving and forwarding items
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Using air mail and fast train serv-
ice wherever possible.

Special messenger service to
New York City daily.

All items received at par.

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PHILADELPHIA-GIRARD NATIONAL BANK

PHILADELPHIA, PA.

Capital, Surplus and Profits . . . \$28,000,000

SEEKING NEW BUSINESS
ON OUR RECORD

The Chemical Bank
invites you to do busi-
ness with its officers as
well as its tellers

WE ARE HERE TO GIVE ADVICE
AS WELL AS TO HANDLE FUNDS

THE
CHEMICAL
NATIONAL
BANK
OF NEW YORK

B'WAY at CHAMBERS, FACING CITY HALL
FIFTH AVENUE at TWENTY-NINTH STREET
MADISON AVENUE at FORTY-SIXTH STREET

be only temporary and that this export coal trade cannot be depended upon regularly by either mining operators or railroads.

The misgivings as to the outlook for business mentioned at the beginning of this discussion have been supported by the recent unsatisfactory action of the stock market. While many stocks have been working lower since August, the decline did not become general until last month. Taking the Standard Statistics Co. average of 199 industrials representing all lines we find the group index on October 23 to be 153.4, which is down 9 points from the high of the year but still 18 points above the low level reached in March. The railroad group index representing 31 leading transportation systems stood on this date at 129.3, down 7.5 points from the high and up 13 from the low.

The action of the market is in accord

with what we have mentioned several times this Fall, namely, the high level of prices compared with a year or more ago, the strong-arm speculative tactics that are in evidence, and the improbability that business will experience any marked expansion in the near future to justify higher prices.

The bond market was moderately active both on the exchange and in the way of original offerings. The continued hardening in commercial money rates and the unsettled stock market still has had no appreciable effect in causing high grade bonds to sell lower, but the underwriting houses prefer cheaper rates as being conducive to long-term borrowing for additional capital and for refunding.

Southern Railway has joined the ranks of the carriers financing by means of capital stock so as to restore a better balance between shareholders' capital and funded debt.

The proposal to issue \$10,000,000 new common stock at par will be voted upon November 18.

The more important bond issues of October included the following:

\$50,000,000	Kingdom of Belgium, stabilization loan 7s, due 1956, price 94, to yield 7.50 per cent;
42,500,000	Republic of Chile, ext. s. f. 6s. due 1960, price 93 $\frac{1}{4}$, to yield 6.50 per cent;
30,000,000	Montreal Light, Heat & Power, Consolidated, Canada, 1st ref. & col. tr. s. f. Series A 5s, due 1951, price 99 $\frac{1}{2}$, to yield 5.03 per cent;
25,000,000	City of Philadelphia, 4 $\frac{1}{2}$ s, due 1976, price 101, to yield 4.23 per cent;
25,000,000	Western Union Telegraph Co., 5s, due 1951, price 100 to yield 5 per cent;
25,000,000	International Paper Co., conv. deb. 6s, due 1941, price 98, to yield 6.20 per cent;
16,900,000	Argentine Government, ext. s. f. public works 6s, due 1960, price 98 $\frac{1}{4}$, to yield 6.10 per cent;
12,000,000	Richfield Oil Co., 1st & col. tr. cfs. Series A 6s, due 1941, price 99, to yield 6.10 per cent;
12,000,000	California Petroleum Corp., conv. s. f. deb. 5 $\frac{1}{2}$ s, due 1938, price 98, to yield 5.75 per cent;
10,000,000	Cleveland Electric Illuminating Co., gen. Series B 5s, due 1961, price 102 $\frac{1}{2}$, to yield 4.85 per cent;
10,000,000	State of Hamburg, Germany, 6s, due 1946, price 91 $\frac{3}{4}$, to yield 6.76 per cent;
9,060,000	Seaboard Air Line Railway, 1st lien eq. tr. cfs. Series Z 4 $\frac{1}{2}$ s, due 1926-1941, prices to yield 4.60-4.90 per cent;
9,000,000	American Furniture Mart Bldg. Corp., 1st s. f. 6s, due 1946, price 100, to yield 6.00 per cent;
9,000,000	Gulf States Utilities Co., 1st & ref. Series A 5s, due 1956, price 96, to yield 5.25 per cent;
7,500,000	Standard Gas & Electric Co. deb. 6s, due 1951, price 99, to yield 6.08 per cent;
7,000,000	Mercantile American Realty Co., 1st s. f. 5s, due 1951, price 98 $\frac{3}{4}$, to yield 5.10 per cent;
6,250,000	Kentucky Utilities Co., 1st 5s, due 1961, price 97, to yield 5.20 per cent;
6,250,000	New York Athletic Club, 1st & gen. s. f. 6s, due 1946, price 100, to yield 6.00 per cent;
6,000,000	City of St. Louis, building & improvement serial 4s, due 1931-1946, prices to yield 4.10 per cent;
6,000,000	Province of Alberta, Canada, 4 $\frac{1}{2}$ s, due 1956, price 94 $\frac{1}{2}$, to yield 4.85 per cent;
6,000,000	Alabama Power Co., 1st & ref. 5s, due 1956, price 98 $\frac{1}{2}$, to yield 5.10 per cent;
6,000,000	Hungarian Consolidated Municipal Loan, sec. s. f. 7s, due 1946, price 93 $\frac{1}{2}$, to yield 7.65 per cent;
5,000,000	Hood Rubber Co., conv. 5 $\frac{1}{2}$ % notes, due 1936, price 98 $\frac{1}{4}$, to yield 5.70 per cent.

State Secretaries

(Continued from page 341)

Oscar Wells, President of the American Bankers Association, made a brief talk to the Secretaries, congratulating them upon their work and their interest in the Association's affairs.

The nominating committee, composed of F. H. Colburn, Margaret F. Barnes, and Haynes McFadden, reported the following selection of officers, which was adopted: President, Harry G. Smith, secretary of the Kentucky Bankers Association, Louisville; First Vice-President, William A. Philpott, Jr., secretary of the Texas Bankers Association, Dallas; Second Vice-President, Frank Warner, secretary of the Iowa Bankers Association, Des Moines, and Secretary, Robert E. Wait, secretary of the Arkansas Bankers Association, Little Rock. The new Board of Control consists of Eugene P. Gum, secretary of the Oklahoma Bankers Association, Oklahoma City, and C. F. Zimmerman, secretary of the Pennsylvania Bankers Association, Huntingdon, Pa.

County Credit

(Continued from page 381)

of the county federation by some speaker who is familiar with all details of the plan. To this meeting, managing officers and directors of banks should especially be invited so that they may become thoroughly familiar with the workings of the proposed system. A vote by banks should be taken at this meeting so that the committee in charge may have some basis from which to further proceed.

All Banks Should Be Enrolled

SHOULD it be decided to form a credit bureau, the committee should supply each bank in the county with a resolution of cooperation for adoption by its board of directors. A copy of the resolution, when adopted by each bank, should be filed with the secretary-manager of the bureau.

Although not absolutely essential, it is very much to be desired that each and every bank in the county become a member of the bureau. In counties where this is not possible at the time of organization, the bureau may be placed in operation and non-member bank or banks urged to join after results have been shown. The mere fact that a few banks will not become members of the bureau at its inception should not deter those banks in sympathy with the movement from organizing.

After all preliminary details have been completed, a meeting of the Federation should be arranged for the election of a secretary-manager. This should be some competent person in whom bankers have confidence as to his ability to retain the information reported in the strictest confidence.

At this meeting, a date should be decided upon for making the first report on borrowers to the secretary-manager.

The next step in the installation is to take an inventory of borrowers in all the member banks of the bureau. This is to be accomplished by having each member bank on a specified date file with the secretary-manager, the names of the makers of all loans and indorsers on such loans. These are to be furnished on cards which will be supplied by the Bureau and are to have only the names of the borrower or indorser, address, occupation, and the key letter which the bureau is to assign to the bank together with date of entry. Space can be provided on the reverse side of these cards for furnishing credit information concerning the borrower.

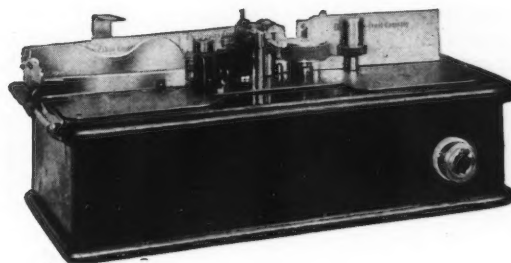
Prior to sending borrowers' cards to the secretary-manager, each reporting bank shall sort all names alphabetically, irrespective of whether they may be borrowers or indorsers. As these cards are received by the secretary-manager, they are to be filed alphabetically in a central file. This file will then contain a list of every borrower and indorser in each member bank and the first inventory is then completed.

Listing the Borrowers

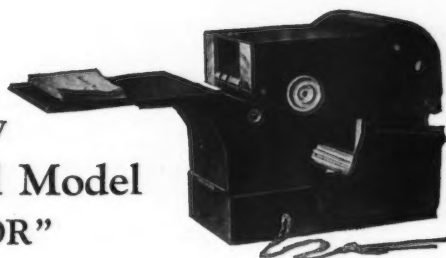
FOR each borrower who borrows in only one bank and for each indorser in said bank, as the case may be, there will be but one card. These are termed "single bank borrowers." For each borrower who bor-

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is forming. Get in line with the many banks successfully solving endorsing problems with **INTERNATIONAL CHECK ENDORSERS**. The complete Line for the complete solution. Single Feed or Quantity Feed according to requirements of your individual system



Automatic
Quantity Feed Model "K"



New
Single Feed Model
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THE INTERNATIONAL
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Brooklyn, N. Y.



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mailing machines. Send for booklets today.

Guaranty Trust Company of New York

140 Broadway

LONDON PARIS BRUSSELS LIVERPOOL HAVRE ANTWERP

Condensed Statement, September 30, 1926

RESOURCES

Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers	\$156,306,448.38
U. S. Government Bonds and Certificates ..	35,430,733.51
Public Securities	18,636,070.91
Other Securities	20,950,906.20
Loans and Bills Purchased	383,438,589.17
Real Estate Bonds and Mortgages	1,664,000.00
Items in Transit with Foreign Branches	7,117,029.58
Credits Granted on Acceptances	40,770,961.83
Real Estate	8,044,029.26
Accrued Interest and Accounts Receivable ..	5,704,185.94
	<u>\$678,062,954.78</u>

LIABILITIES

Capital	\$25,000,000.00
Surplus Fund	20,000,000.00
Undivided Profits	4,606,786.44
	<u>\$49,606,786.44</u>
Accrued Interest, Reserve for Taxes, etc. . .	7,020,211.93
Acceptances	40,770,961.83
Outstanding Treasurer's Checks	23,971,613.49
Deposits	556,693,381.09
	<u>\$678,062,954.78</u>

ATWATER KENT RADIO

rows in two or more banks and for each indorser in two or more banks, as the case may be, there will appear two or more cards. These are termed "duplicate borrowers."

In order to save both time and expense, cards showing the names of both "single bank" and "duplicate" borrowers should be kept together in the central file instead of segregating the two classes.

The secretary-manager will then send to

each bank reporting a duplicate borrower information showing at what banks this person is borrowing.

When banks receive this information, the managing officers should confer at the earliest opportunity to discuss the duplicate loans of their respective borrowers.

A better plan to follow and one which would work out to the advantage of all would be to call a meeting of the managing

officers of all banks having duplicate loans and at this meeting discuss what disposition should be taken as they mature. It has been mentioned that only those banks interested in duplicate borrowings should enter into this discussion, but the value to all bankers in the county of knowing those borrowers who make a practice of obtaining credit from two or more banks and, in some instances, disregardful of their ability to meet their obligations, can be readily seen. What is of interest to a banker today might be of interest to another tomorrow, for the latter, without the knowledge of certain facts relative to a prospective borrower, might extend credit to this individual with a resultant loss to his bank.

This situation occurred in Marshall County prior to the organization of the credit bureau. One banker purchased from one of his customers a note for \$2,400 covering the purchase price of an automobile. He took the farmer's note, believing it to be more acceptable than one of the automobile dealer's. The banker made a mistake. The farmer, it turned out, owed approximately \$25,000 to five banks in the county in addition to sundry debts at mercantile stores and grain houses. Being a renter on 320 acres of land and with very little equipment, the farmer was unable to meet his obligations and as a result his creditors stand to lose about 95 cents on the dollar.

Would this banker have purchased this note had he known of the over-extended condition of his customer?

It is suggested that duplications involving banks in the same town be handled direct instead of at the general meeting in order to save time.

So that the system may be kept up to date, it is suggested that a re-check on borrowers be made periodically. In most counties it will be found advantageous and expedient to return all cards in the file of the secretary-manager to the respective banks, whose officers can then make any additions or withdrawals as are found necessary. The cards can then be returned to the secretary-manager and the same operation repeated at some future date.

In the event the total line of credit to any one borrower is retired, member banks shall report this fact to the secretary-manager. When this information is received by the secretary-manager, cards showing the names of borrowers whose loans have been paid are withdrawn from the file and other interested banks are immediately advised of the payment of such loans.

Three C's

(Continued from page 306)

grapes until he found that they were out of reach. Then he comforted himself with the deceitful thought that the grapes were sour. He deceived himself. If he had found a bunch of grapes fifty feet further on within his reach, he could not have taken them because of the criticism which he might have received from his associates. He did not distinguish between a fact and what he persuaded himself to be a fact.

The successful banker must be able to distinguish between what is right and what he persuades himself to believe is right, for his temptation will seldom come between

Dillon, Read & Co.

what he knows to be right and what he knows to be wrong. Few bankers have ever misappropriated funds who did not first of all persuade themselves that the use to which they were putting the money was perfectly right and justifiable in their own eyes and in the eyes of their companions and associates. Rationalized thinking has been a contributing cause of numerous bank failures. The banker of high intellectual inheritance will not permit himself to believe that a policy is right simply because it contributes to his own comfort, convenience, and prosperity, when he knows in the depth of his conscious life that it is wrong. Neither will he permit his patrons to proceed on this erroneous business basis.

For instance, the patron who attempts to persuade his banker that he needs to borrow money with which to buy an automobile for the purpose of traveling to work when he is buying it primarily and principally for the sake of pleasure, should benefit by the advice of his banker, who has the ability to point out the error of his client's reasoning.

Must Admit His Faults

IN the second place, the mentally alert banker is a man who gives no place to loose thinking. He deliberately connects the effect with the cause. If he makes a bad loan, he charges it to his lack of judgment, if it is his lack of judgment, rather than to the recommendation which he has received from a friend of his client. If he loses a patron, he charges it to his discourtesy perhaps, rather than to the weakness of his depositor. He is honest in admitting his faults as well as in praising his achievements. And he helps his depositor to assign reasonable reasons for his successes and failures, at least he shows him that effects always proceed from definite and quite often discernible causes.

The banker should not blame the messenger for failure to deliver a letter which was never sent; neither should he blame one of his associates for his failure to carry out orders which were never given, nor courtesies which were never suggested. The successful banker will place the blame quite often upon himself as the leader and director of his organization.

The banker who has inherited an intellect capable of growth and progress will not carry into his adult business activities, habits of childhood, habits which function properly in an immature society, but which have no place in a well organized and well regulated business corporation. The failure of thousands of bankers can be traced to this difficulty. In the place of a sharp word given in return for a severe criticism, he will employ the maxim of Biblical origin, "A soft answer turneth away wrath."

The successful banker is one whose nervous system is at all times capable of self-control, self-mastery, and self-direction. Such a man is capable of cooperation and community leadership. Intellectual leadership, therefore, becomes the outstanding asset of the successful financier.

The Mental Capacity

ONE of the most interesting phases of growth is that which takes place within the nervous system of a human being. We

are told by psychologists that all of the neurones of the brain have not been formed at the time of birth, but by the time the child reaches the age of two years, these separate units of the brain have come into being. By the time the child is five years of age the brain has reached approximately 90 per cent of the size it will be at maturity, and at approximately the age of sixteen, the

brain has reached its full growth. It is thought that at this age one reaches the level of intelligence which is to be carried for the rest of his mental life.

During this period of growth, development and expansion, the well defined habits of response which have to do with the general human virtues such as honesty, integrity, and truthfulness have been well

National Bank of Commerce in New York

Established 1839

STATEMENT OF CONDITION, JUNE 30, 1926

RESOURCES		LIABILITIES	
Loans and Discounts	\$322,984,561.38	Capital Paid up.....	\$25,000,000.00
Overdrafts, secured and unsecured	70,160.40	Surplus	35,000,000.00
United States Securities	61,028,216.99	Undivided Profits ...	6,942,978.69
Other Bonds and Securities	14,535,190.07	Dividend payable July 1, 1926.....	1,000,000.00
Stock of Federal Reserve Bank.....	1,800,000.00	Dividends unpaid ...	15,769.50
Banking House	4,000,000.00	Deposits	515,005,640.27
Cash in Vault and due from Federal Reserve Bank.....	68,326,181.26	Reserved for Interest, Taxes and other Purposes....	6,716,197.06
Due from Banks and Bankers	8,312,874.86	Unearned Discount..	1,081,175.20
Exchanges for Clearing House	123,914,071.98	Acceptances executed for Customers ...	23,126,533.32
Checks and other Cash Items	2,859,686.31	Acceptances sold with our Endorsement..	17,513,372.72
Interest Accrued.....	1,527,353.12		
Customers' Liability under Acceptances.	22,043,370.39		
	\$631,401,666.76		\$631,401,666.76

CHAIRMAN OF THE BOARD JAMES S. ALEXANDER

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Cut maintenance costs

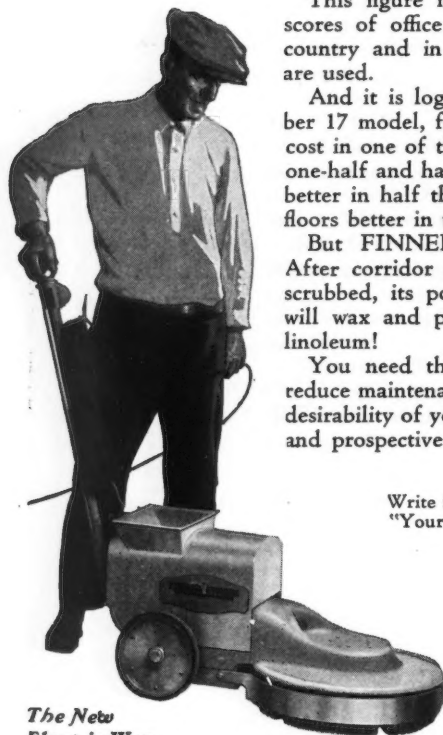
THE right FINNELL electric all-in-one scrubbing, waxing and polishing machine can cut old method cleaning costs by at least 50%!

This figure is based on actual experience in scores of office and industrial buildings in this country and in Europe where FINNELL units are used.

And it is logical. With the FINNELL number 17 model, for example, you can cut cleaning cost in one of three ways: Reduce man power by one-half and have cleaner floors. Or clean floors better in half the time. Or clean twice as many floors better in the same time.

But FINNELL does even more than this. After corridor and workroom floors have been scrubbed, its powerful, almost noiseless brushes will wax and polish office floors, including the linoleum!

You need the FINNELL. It will not only reduce maintenance cost but will also increase the desirability of your building in the eyes of tenants and prospective tenants.



*The New
Electric Way*

Write for details and descriptive booklet
"Your Questions Answered by Users"

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Standard Bank Bldg., Ottawa, Ont., Canada.

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FINNELL

ELECTRIC FLOOR MACHINE

It Waxes - It Polishes - It Sands - It Scrubs

established. Following this period, many life habits are quickly and readily formed. I believe that during the period between twenty and thirty much of the technique of a profession is learned. Now the banker must develop a professional technique quite his own. It is in a number of respects different from the technique of any other occupation or profession. This is because of the human element involved. The banker who develops this technique is the one most interested in professional prestige. He is the man who studies all the courtesies pertaining to his profession. For instance, he learns to say "no" without offense.

I have received very few discourteous letters among the vast correspondence in which I have engaged during the past twenty years, but I must say that the most

discourteous letter I ever received was from the pen of a banker. This man did not have what I like to call professional capacity, ability to do the thing which he thought should be done in the proper manner. List if you will all of the activities of the banker, such as the one just mentioned, and classify them under the method or manner of banking, and you catch the significance of what I am trying to say.

There is no group of men in recent years who have laid more emphasis upon the necessity of strong character than the group of men who control the destinies of the banking institutions of America. They have placed upon it as already suggested a utilitarian value. Without character the financial structure could not long endure.

This element of personality makes him

a good banker and this element of personality makes his depositor a good patron. And let me say that the character of the banker will have a vital influence upon the character of his patron, for it is through association with great characters that character is really formed.

Development of Character

EDUCATORS, generally, believe that there are three definite processes through which an individual passes in developing character.

The intellectual process is one. The banker has an opportunity to become outstandingly well informed on account of the fact that he deals with so many intricate problems, problems which belong to his patrons as well as to the corporation of which he is a part. Now all leaders in educational thought believe that character is formed through meeting and successfully solving problems. The man who cannot solve a problem fails in the highest realm of human endeavor. The banker might well test himself and his patrons by individual success or failure in times of crisis.

Next comes the temperamental process. One does not need to be a close observer of human nature to discover that the reactions of the various organs of the body have much to do with the moods or temperaments of an individual, and it is readily observed that the temperamental banker is out of place. Whenever a man finds that he is moody or temperamental, he should investigate rather carefully his health. Generally speaking, poor health makes poor business men. Success depends upon an even temperament and a ready response.

The moral process is still another through which one must pass. Wherever there is human life, there is movement, and wherever there is movement there is social value. Successful interaction between people or groups of people is called moral conduct. Two thousand years ago a great moral leader suggested the philosophic basis of proper conduct when he said, "Whatsoever ye would that men should do unto you, do ye even so unto them." This may be taken as the basis upon which good banking is established, for the banker must consider the depositor as well as the borrower.

No community builder has a larger opportunity than the bank executive to lead in the realm of morals. He has taken the place to a certain degree, either consciously or unconsciously, of the moral philosopher of earlier times. His philosophy, however, is expressed in terms of action as well as in terms of words. And all well ordered philosophy is based on action, for out of action comes thought; out of thought comes a system of philosophy; out of philosophy comes organization, and out of organization success.

IT is anticipated that the study made by a special committee for the Commerce and Marine Commission on automotive transportation will be finished within the next four or five months.

The committee, headed by Walter S. Bucklin, president of the National Shawmut Bank of Boston, has devoted more than a year to the study of how the motor bus and the motor truck are affecting the transportation situation.

Charges For

(Continued from page 304)

We should have collected on this account for the month \$77.20 to cover the interest on items in process of collection for which we gave immediate credit, making a total loss for the month of \$83.87.

We base the cost of handling on transit items $2\frac{1}{2}$ cents; checks drawn on us $1\frac{1}{2}$ cents; clearing-house checks $\frac{1}{2}$ cent, and the returning of unpaid items, 15 cents.

In December we began the practice of charging this company for these items and have since collected for them regularly each month.

A few days ago, however, John Doe & Company gave us a new order for an additional supply of checks with their imprint thereon. We estimate the printers' cost of these checks to us at one-fifth of a cent each. Our practice now is to charge John Doe & Company for the printing of their card on these checks. The new order of checks placed with us would cost us for this imprint \$19.50. We charged this amount to our customer and when they received a notice of the charge they objected. When they objected we furnished them an analysis of their account, which is exceedingly interesting.

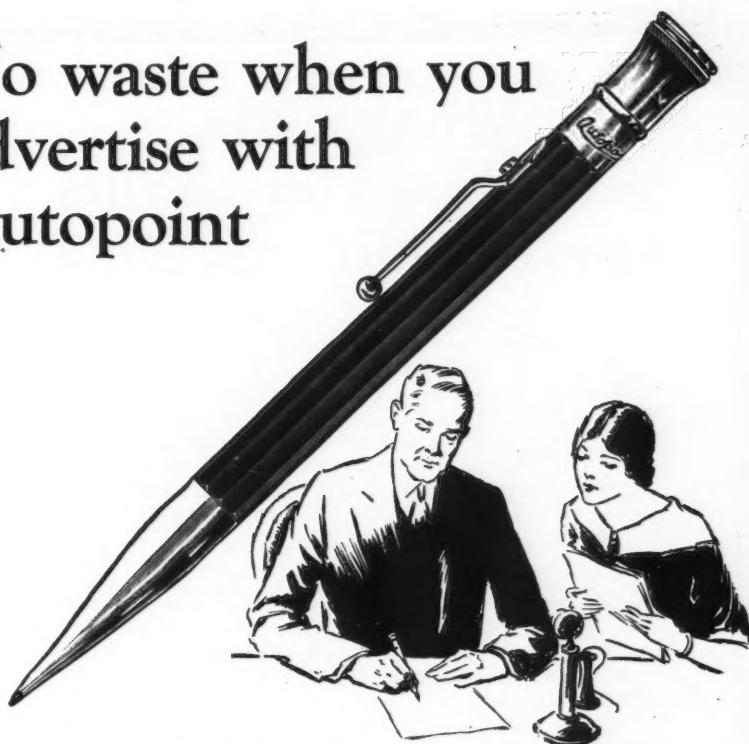
Small Net Balance

THIS analysis covered the period from January to Sept. 1. Their average daily balance for the last six months amounted to \$6,400. Their float amounted to \$6,000 a day, leaving a net balance daily of \$400. Deducting from this net balance of \$400 the 15 per cent reserve required by law, there remained a daily balance of \$340 of loanable funds belonging to this concern in our possession during the last six months. Allowing them a credit of 8 per cent interest on this balance for six months, it would amount to \$13.20. Charging up their items for collection at the rate shown in the schedule above, we would have a charge against them for the six months of \$167. Deducting the \$13.20 their account would be in the red in the amount of \$153.80, to say nothing of other costs not charged to them of checks, pass books, ledger sheets, deposit slips, etc. These items, of course, do not include the bill of lading drafts as we collect interest on these regularly each month.

Our customer was hard to convince that they did not have a \$6,400 balance in our bank and they continued to labor under the impression that their account was a profitable account to us but the fact remained, and we think they will finally see it, that they are doing a million dollar business on a working bank balance of \$6,400 of which balance our bank furnished them \$6,000 and they furnish the \$400. It is an amazing spectacle and yet banks all over the United States are doing business on exactly that basis and do not know it.

A banker friend of ours told us the other day of a canning concern in his town whose account had netted him something like \$2,000 in interest a season in the years gone by, but the manager of the concern discovered that he could draw sight drafts on his customers and (the banker not being smart enough to collect interest on those sight drafts for the time it took to collect them)

No waste when you advertise with Autopoint



YOUR ad goes to the man you seek to reach, stays there indefinitely when you give an Autopoint Pencil, stamped with your name.

Hundreds of leading banks prove our statement that the Autopoint Pencil is a 100% advertising medium if there ever was one.

These banks, many of them, started with us in a small way. Their success is traced in continually larger orders for Autopoints.

Why Autopoint

Autopoint has unquestionably become the pencil drafted by Big Business. Bank leaders by the score have chosen Autopoint for personal use.

This gives Autopoint an acceptance that makes it a desired gift.

The big feature in the Autopoint is its unique "non-jam" feeding mechanism. This alone has won thousands of users to prefer Autopoint. Then, Autopoint has balance. Its barrel is made of Bakelite, the most beautiful and most ideal material ever devised for the purpose. Finally, Autopoint's construction is the simplest of any pencil—

Autopoint's 3 Exclusive Features

- 1 Cannot "jam"—protected by an exclusive patent.
- 2 Bakelite barrel—beautiful, lightweight material—cannot dent, split, tarnish or burn.
- 3 But one simple moving part. Nothing complicated to go wrong. No repairs, no bother.

only one moving part. That means long life and no troublesome adjustments.

Send the coupon now

There is a grade of Autopoint for every use—a size for every need. See them at any stationer's. Executives of banks are invited to mail the coupon NOW for interesting new literature and price lists. There's no obligation.

Learn about this amazing new way to advertise for many who have considered advertising too costly.

AUTOPOINT COMPANY 4619 Ravenswood Ave., Chicago, Ill.		For Bank Executives Only
Without obligation, please send booklet, your business-building proposition, prices of pencils and stamping, and full information.		
Name		
Bank		
Address		
J.A.B.A. 11-26		

Autopoint
 "The Better Pencil"
 Made of Bakelite

Clip the Coupon and Mail NOW!

managed to get through this last season at an entire interest cost of something like \$500. In other words, this large concern managed to operate through the season on the bank's capital and at the bank's expense and neither the bank nor the canning concern knew what caused the difference until it was all over. The banker knows now. In other words, the canning concern was doing business entirely on float and the bank was doing the work for nothing and taking a very large risk.

Our own bank has collected in interest on bills of lading since the practice began

in December about \$1,000, which we heretofore gave to our customers by furnishing them free capital. These mushroom accounts, made up of checks on outside towns, deluded us into believing that they were real money.

Comparing Your Bank

FOLLOWING is a table of comparison of income and expenses which we think every banker should prepare in order that he may be able to put his finger on the weak spots in his operations.

What a Big New England Bank writes about Credit Insurance

A leading New England Bank has written the American Credit-Indemnity Co. as follows:

"Credit Insurance is of paramount importance to all merchants, and should be given most careful consideration. It not only places them in a more favorable position with reference to credit granting by their Banks, but also gives evidence of a policy of conservatism in providing against failures at all times, without regard to general conditions.

"Notwithstanding the judgment of the average merchant, with reference to credit granting, almost everyone suffers more or less by failures, and in order to provide for contingencies which might arise, it seems to us to be good business judgment that some provision should be made."

Bankers in all other parts of the country are endorsing this broad service which protects the book accounts of a Manufacturer or Jobber against abnormal, unlooked-for credit losses.

Interesting literature, and any specific information about American Credit Insurance which may be desired, will gladly be furnished any Banker upon request.

**The AMERICAN
CREDIT-INDEMNITY Co.**
OF NEW YORK J. F. McFADDEN, PRESIDENT

Offices in All Leading Cities

New York, St. Louis, Chicago, Cleveland, Boston,
San Francisco, Philadelphia, Baltimore,
Detroit, Atlanta, Milwaukee, Etc.

K203

Comparison of Income and Expenses

For Member Banks of the Federal Reserve System,
the Tenth District and the Fremont
State Bank for 1925.

Based on Total Earning Assets, Loans and Dis-
counts, Bonds and Securities.

Amounts per \$100 Earning Assets	Total U. S.	Tenth District	Fremont State
Interest received.....	\$5.40	\$6.41	\$7.65
Other income.....	1.01	.87	.25
Gross earnings...	\$6.41	\$7.28	\$7.90
Salaries and wages.....	\$1.25	\$1.71	\$2.34
Interest on borrowed money09	.07	none
Interest on deposits.....	2.15	2.25	2.31
Other expense.....	1.08	1.54	1.24
To guarantee fund.....			.67
Total expense....	\$4.57	\$5.58	\$6.56
Net earnings.....	\$1.84	\$1.70	\$1.34

Losses (charged-off stuff,
etc.)44 1.02 .73
Net addition to profits 1.40 .68 .61
Profit per \$100 capital
and surplus..... 8.93 4.78 8.92

For example, in looking over this table, we find that our "Interest Received" has been very much greater than the average income either for the Tenth District or the entire United States, but when we come to the "Other Income" item we find that we are in a very weak position. Our survey of November disclosed the reason for that position. We were rendering a great deal of service to our customers for which we received no pay, but our "Other Income" for 1926, when that table is compiled, ought to show considerable improvement. At any rate we know where our strength and where

our weakness lies so far as our income is concerned.

Now as to the "Outgo" as shown by this table of comparison. It will be seen that we are greatly deficient in the matter of salaries and wages, that is, we pay out a great deal more money than the average for the Tenth District or the United States.

In the matter of "Interest on Borrowed Money" we excel as we have paid out no money for that purpose.

When it comes to "Interest on Deposits" we are again below the average in that we pay out more money for interest than do the banks in the Tenth District and in the United States.

In the matter of "Other Expenses" we fare better than the Tenth District and worse than the average for the United States.

In the last item of "Outgo," the Guarantee Fund to cover the insurance on deposits, is not paid by the banks of the United States nor the Tenth District, therefore the 67 cents per \$100 we pay for this insurance increases our average cost of doing business just that amount over the other banks.

It is interesting then to observe where we are above and where we are below the average, and thus examine into our operations to see whether or not we can meet the obstacles that confront us in reducing these various expenses.

The above analysis, if made by every banker, would put him in a position of ascertaining where his weak spots were and what, if anything, can be done to strengthen them.

New Measures

(Continued from page 321)

force during the past three years in Minnesota, North Dakota and South Dakota, it is probable that more than \$25,000,000 of time deposits would not now be tied up in closed banks in that territory.

Another "bottle" that would go far toward holding and increasing the savings deposits of our banks is that of adaptability to the needs of our customers. We ought to be jealous that absolutely fair methods of computing interest are employed. We ought to see that the hours for banking are reasonably suited to the convenience of our savings depositors, and that they can obtain mortgages on their homes from us made on some amortized plan suitable to the needs of borrowers who are paid salaries or wages on a monthly or bi-monthly basis.

A third "bottle," for which there is a constantly increasing demand, is a department in our savings banks which is willing and competent to give advice as to sound investments for surplus savings and which might, where the laws permit, even supply such.

Then there is the "bottle" of courtesy toward depositors, and in the use of this we might well take a lesson from the trust companies who by the use of it have enormously increased their deposits and added largely to their earnings.

These are all "bottles" for which there is more or less immediate need, but the last "bottle" which I will mention is one for

which in our own country there has fortunately up to date been no urgent need, but the lack of which has caused a terrific blow to be struck at the very foundation of thrift in many of the European countries. I refer to the fact that, through the deflation of the value of their national currency, these countries have practically destroyed a greater portion of the savings of the people. The average savings depositor has not the wit or financial training which under such circumstances enables certain classes to change their cash and bonds into other forms of property, nor the foresight to transfer credits to other countries, but they know only too well that by some financial legerdemain their savings, which constituted their sheet anchor against misfortune and their prop for old age, have been largely swept away. The question whether some sort of a legislative "bottle" cannot be devised which would prevent such a wholesale loss of what ought to be the most sacred form of property is one that might well challenge the best minds among us.

In savings banking, as in other lines of business, we have been plunged headlong into a new economic age, and we cannot stand still.

Progress in Adventuring

THE old way, because it is the result of years of experience, should always be the foundation, but progress is only possible by adventuring with the new.

The story is told that an emperor in the olden times once called a conclave of all the scholars of his day and commanded them to reduce the sum of all human knowledge acquired up to that time into a formula of four words. After long deliberation the report of this conference was as follows: "This, too, must change," or, to put it in the words of our own poet, James Russell Lowell, "New times new measures must employ."

The call of the hour is for a wisdom that will guide the life of the community of today and be of that promise a guaranty.

Knowing How

(Continued from page 288)

going to be a drag upon our country in the development that is just ahead of us.

In our country we have had from the very beginning, way back to Washington and Jefferson, the idea of the necessity of teaching the young. We have carried that process on until today we have reached a level of prosperity in all directions. In spite of some of the things that are constantly happening, we are reaching new levels of manhood and womanhood; but it is important for us as citizens of the world not to become provincial, not to get the strictly continental viewpoint, but to remember that the human race rises and falls. Inventions have made the world smaller. It is getting smaller all of the time.

Community thinking is the background of social success, and community thinking now is world thinking, so that in organizations national in scope we must always have in mind the man on the other side, the international viewpoint, because unless the neighbor is happy you can not be happy, in the long run.



Concerning 200,000 sources of facts

AT the ready call of our Investigating and Buying Departments are over 200,000 separate statistical files containing essential information on foreign and domestic industrial corporations, public utilities, railways, municipalities, governments and other borrowers.

This wealth of facts and figures, backed by seasoned investment judgment, forms a foundation for our investment recommendations to banks. We will gladly send our monthly list of recommended bonds.

The National City Company

National City Bank Building, New York

Offices in more than 50 leading cities throughout the world

BONDS

SHORT TERM NOTES

ACCEPTANCES

Relations With

(Continued from page 318)

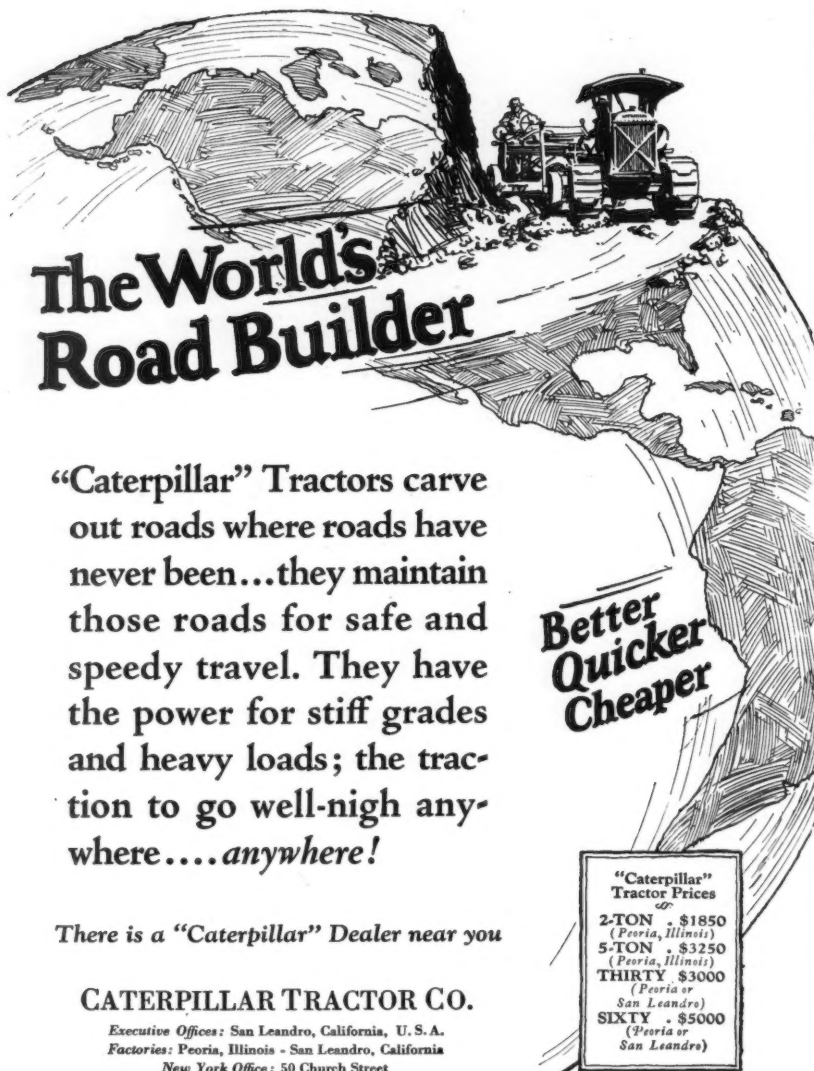
manency of the product and the competition to be encountered. In some cases the spread of business to the suburbs has affected the profits of the downtown store. Products that are popular today may be out of style tomorrow. Cotton hosiery has given way to silk in a very short time; buggies have largely been supplanted by automobiles. It is therefore necessary to study the changing economic condition.

Credit Becoming a Science

WE may be able to reduce to a scientific basis the laws governing credit and standardize the statement, giving the correct ratios for each business, but we will never be able to standardize the human

equation that enters into the management. Certainly we can specify the qualities necessary for good management—honesty, experience, ability, industry, etc., and yet time and again our judgment has failed. However, a man who so conducts himself as to gain the confidence of the banker seldom goes wrong.

Credit is more and more becoming a science. It is as old as law or medicine, and yet its rules and principles and vast data covering the aggregate banking and trading experience have not been reduced to any scientific study. When one considers the large number of bank failures caused by mismanagement, due largely to ignorance regarding the laws of credit, it becomes more and more necessary for young bankers to prepare themselves by a course in the science of credits.



The World's Road Builder

"Caterpillar" Tractors carve out roads where roads have never been...they maintain those roads for safe and speedy travel. They have the power for stiff grades and heavy loads; the traction to go well-nigh anywhere....anywhere!

Better Quicker Cheaper

"Caterpillar" Tractor Prices	
2-TON	\$1850 (Peoria, Illinois)
5-TON	\$3250 (Peoria, Illinois)
THIRTY	\$3000 (Peoria, Illinois)
SIXTY	\$5000 (Peoria or San Leandro)

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 Executive Offices: San Leandro, California, U. S. A.
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BEST C. L. Best The Holt Manufacturing Company HOLT
 Tractor Co. turing Company

95-1126



Some Problems

(Continued from page 334)

past few years of a sum estimated at more than one-quarter of a million dollars, and the elimination of a vast amount of worthless promotional activities.

This is an example of the way in which cooperative action has solved one of the most annoying and insidious drains upon our profits. Other items of expense that might be dealt with in a similar manner are the free imprinting of special checks, inadequate charges for collections, safe-keeping of securities, handling of escrows, and the clerical work involved in excep-

tionally active accounts without compensating balances. In connection with escrows, it may be mentioned that there was recently organized in Los Angeles an association of escrow officers for the purpose of standardizing methods and charges, the effect of which has been to place this service upon a self-supporting basis.

The public will be more willing to pay a reasonable charge for the many services which they now receive when the educational work of the American Bankers Association is more widely disseminated. As you may know, this Association has now for some years been carrying on an extensive educational campaign in cooperation with that splendid organization, the American In-

stitute of Banking, the object of which is to explain to the general public the functions of banking, and to clear up in their minds those misunderstandings that are so frequently the result of misinformation.

Installment Buying Growing

THE second problem is that of installment buying. It is not strictly a banking proposition, but nevertheless affects the general banking and economic situation to such an extent that as bankers we are bound to consider it. We must concede, of course, that many arguments put forth for installment buying are sound, and we know that in some lines it has been practised satisfactorily and safely for many years. There can be no question, however, that installment sales have been increasing so fast that we may well ask whether or not the limits of safety have been exceeded.

We have seen old-established concerns, after operating for years upon a cash basis, forced by competition into the installment field. We now see important industries whose output is almost wholly absorbed upon the installment plan. Therefore, we may well ask ourselves if we are to witness still further extensions, and where they will lead us. We cannot proceed indefinitely to mortgage the earning power of the future to satisfy the wants of the moment.

In addition to the economic aspect of installment buying, there is also a social one. Our people have acquired such a habit of contracting these obligations, despite the increased cost of bonus and premiums incident thereto, that we may well look with some misgiving upon its effect. It would be a disaster to this nation if the ease of contracting debts should undermine the old attributes of thrift and industry which have been such a bulwark of strength and safety to our forbears. Let us rather follow the example of the worthy President of our nation, and both in personal and business life maintain the wise and cautious financial policy upon which the great achievements of America have been founded.

The Federal Reserve System

THE third great problem which confronts the bankers of the United States concerns rechartering of the Federal Reserve banks without undue delay. Although the charters do not actually expire until 1934, it would be unfortunate, both to banking and to general business, to leave the question of rechartering until a short time before the expiry date. The continued existence of the Federal Reserve System is so vitally important to the future of American business and finance that we should not rest satisfied until the System is definitely placed beyond all dangers arising from exploitation by politicians, and the vicissitudes of political dissensions.

It is not within the scope of this discussion to advocate any specific changes in the Act, for the reason that adjustments have, can and should be made from time to time, as need may arise, to keep abreast of changing conditions. Rather, it is my purpose to advocate with the utmost earnestness the prompt rechartering of the Federal Reserve banks. The Federal Reserve System is the bulwark of American bank-

ing. Without it there is no doubt that we should have experienced troubles during the period of the World War, beside which the trials of previous years would have paled into insignificance. It carried us successfully through a period of financial stress and readjustment of greater severity and magnitude than anything before in history. The Federal Reserve System, like Tennyson's brook, should go on and on forever. The facts are clear—the arguments incontrovertible. It remains for our legislators to place this important matter on the docket for early consideration. It remains for us to impress upon our legislators the great importance of giving this matter prompt attention. The importance of the subject should raise the issue above party lines, or the desire to favor one class at the expense of the other.

We, as bankers, have furnished the entire capital of the Federal Reserve banks. Our legal reserves, carried with them without interest, constitute the sinews of the System. Business and agriculture have both received incalculable benefits through the rediscounting functions of the banks and the avoidance of danger. Therefore, it is in the interest of all our people that prompt and farseeing action should be taken in this most vital matter. And, while it is highly important that the national banking laws be properly adjusted to meet changed conditions and be liberalized, so that they can compete successfully with first-class state banking laws, such as the state of California has, it is even more important that the charter of the Federal Reserve banks be extended by Congress at the earliest possible date.

The United States

(Continued from page 290)

erly balanced budget. This is only 1½ per cent of our total receipts and expenditures, and is, one must admit, a narrow margin. When this margin is insured, we can turn to further tax reduction.

As I have stated, with a large existing indebtedness, the surplus of prior years is not carried forward in cash, but goes into reducing debt. Past surpluses are not available for future tax reduction. A cut in taxes, other conditions being equal, works a loss of revenue not for one year, but for every year, whereas surplus may be an isolated phenomenon appearing in one year and not in the next. It is for this reason that the government, whatever it may have received in past years, cannot afford to reduce its revenues below its expected expenditures in future years.

There is a peculiar argument one hears advanced that it is proper to add together the surpluses of two years to determine the amount taxes can be reduced. On this theory a man who received \$100 a week and spent \$95, and who had two \$5 bills in his pocket, could continue to break even week after week with his receipts cut to \$90 and his expenses remaining at \$95. This is political finance.

Some six months ago Congress reduced taxes in the Revenue Act of 1926. The anticipation of this aided in bringing the country to the present high tide of prosperity. The Treasury has shared abundantly, and

the revenue will this year more than meet the cost of government. The previous cuts in taxes have been possible because of strict economy, which has brought about war-cost deflation promptly and the increasing business activity of the country, which has followed. As I have said, expenditures seem to have reached a level, but it is quite too early to be assured that revenues will keep up. Tides ebb and flow. They do not remain constant. The people do not want a reduction one year and new taxes the next. It would be most unfortunate to have to add to a declining prosperity more taxation and thus accelerate the decline. Uncertainty added to uncertainty. The administration has gone far in the past few years, and it should be sure the next step is not over

the line. If a full year's trial of the present taxes justifies the belief in a higher surplus than \$100,000,000 for several years, the excess should go to tax reduction, but below that margin, and before we have that assurance we should not go.

To summarize, I quote from Secretary Mellon's statement to the Ways and Means Committee in the last session of Congress: "This country is today exceedingly prosperous. It can afford to pay off its debts without undue burden upon its taxpayers. Its history has always been prompt extinguishment of its war debts. It is ready for the next emergency when it comes. The time to repair your roof is in good weather, not when it is raining. The time to pay your debts is when you can."

STANDARD TRUST & SAVINGS BANK

The growth of this bank reflects a consistent loaning policy and the personal contact between the officers and depositors. During past four years the deposits have approximately doubled.

Growth of Deposits:

During Four Years

1922	\$10,538,769.92
1923	11,541,458.56
1924	13,479,454.27
1925	16,264,316.27
1926	20,187,384.36
(June 30th Statement)	

Member Federal Reserve Bank

Member Chicago Clearing House Association

Total Resources, \$22,474,673

Officers

Charles S. Castle.....President	Frank R. Curda.....Trust Officer
Ward O. Castle.....Vice-President	John S. Crossley.....Assistant Secretary
C. A. Shephardson.....Vice-President	Martin A. Olson.....Assistant Cashier
Robt. M. Campbell.....Vice-President	R. B. Reeder, Jr.....Assistant Cashier
H. W. Hawkins.....Vice-Pres. and Sec.	Joseph C. Barth.....Assistant Cashier
Leo J. Talleur.....Cashier	W. Rowland Monroe.....Auditor

Commercial, Savings, Trust, Bond and Real Estate Loan Departments; Safe Deposit Vaults

112 WEST ADAMS STREET
STANDARD TRUST BUILDING

Chicago

CANADA

With over 600 Branches located throughout Canada, the Bank of Montreal is in a position to handle Banking Business in any part of the Dominion promptly and to the best advantage. American Banks and Trust Companies will find in this Bank's service valuable co-operation in connection with their Canadian Business.

THE BANK HAS ITS OWN OFFICES
in

New York, Chicago and San Francisco

*Direct Wire Service between Montreal,
Toronto, Winnipeg, Vancouver, New
York, Chicago and San Francisco Offices.*

HEAD OFFICE: MONTREAL

BANK OF MONTREAL

Total Assets in Excess of \$750,000,000

NEW YORK AGENCY . . . 64 Wall Street
CHICAGO . . . 27 South La Salle Street
SAN FRANCISCO . . . 264 California Street

New Problems for Clearing Houses

(Continued from page 333)

on check standardization was held in Washington under the auspices of the United States Department of Commerce, attended by the representatives of twenty-two groups of governmental and national business organizations. As a result of this and subsequent conferences, a unanimous report was agreed upon, recommending simplified standardized checks, vouchers, etc., the universal adoption of which will mean the saving of millions of dollars annually in the manufacture of checks and greatly expedite the work of transit departments. The campaign has met with enthusiastic response from all sections of the country, from banks, clear-

ing houses, lithographers and other large business units.

This section's officers also cooperated with the United States Department of Commerce in working out and adopting a set of standard contract terms and conditions for negotiable warehouse receipts. The terms agreed upon are brief, clear and definite, and will soon be in general use throughout the country—another forward step in banking economy.

The Clearing House Section is rapidly becoming what it should be—the banking laboratory of banking principles and practices for the membership of the American Bankers Association.

Values in America

(Continued from page 292)

select our own risks, to launch efforts of our own choosing, to secure, hold and enjoy the rewards of our successes, to do all these things subject only to such restraints as the common good may suggest or the preservation of liberty itself may demand. It is the freedom which is the antithesis of the dull spectre of standardization, of molding and shaping all to common form or common thinking or common effort under the compulsion of government or any other force. It is the freedom that begets self-reliance and brings forth initiative. It is the freedom that offers the greatest motive to material progress and prosperity upon which the greater values of life depend. The incentive to effort, to risk for accomplishment is reward; it is neither punishment nor restraint nor is it gratitude. Bankers of ancient Athena held forth freedom as the prize for efficient work, and slaves won freedom and themselves became bankers of Athens.

Mainspring of Invention

CONSTITUTIONAL liberty, with its guarantee of the right of property, has been the mainspring of invention, the impetus for the organization of industry, for the creation of surplus capital and its application to the welfare and prosperity of society. Our prosperity has come to pass because we have constitutional liberty, because we have the great underlying motive for initiative, for effort and for risk, because we have the hope of gain vouchsafed by the institution of private property, because we have the freedom to do and to dare and to gather the fruits of victory.

America has proved that liberty and equality can dwell together. We are meeting in a truly marvelous way the great tests of civilization. But we are by no means out of the woods in some paradise where human nature is perfect and human frailty gone. Old arguments have lost their force, old slogans their significance, but new and insidious movements appear to break the co-ordination between liberty and equality. In rational political life, we have destroyed party responsibility and substituted a bloc system that is almost daily seeking to trade us out of our liberties. As one lone illustration: There are on the Federal statute books 5000 laws with penalties governing railroads. On the statute books of the states there are 200,000 other railroad laws, regulating and controlling railroad management. A common line of restraint runs through all of them. It is in the direction of standardizing conduct and management. Standardized management is put above initiative and originality. Restraint is preferred to liberty under law. Legislation is not the well of morality nor the master of economic forces.

We should be profoundly concerned with this state of affairs. It is to me a terrifying thing that great business leaders must say that the prosperity of the American people depends upon what Congress does. There is a profound relation between government and social and economic progress; no one need deny or question the fact, but if we keep our government geared to American institutions we need not suffer the terror that

chills us when our legislators meet. It was to me an equally terrifying thing that the Mellon tax program, meeting the wishes of the public mind and backed by the whole force of the executive branch of an administration selected overwhelmingly by the people, was yet held up an unconscionable time by the legislative methods we have allowed to grow up at Washington. Bureaucracy and bloc legislation menace our free institutions.

The summons is clear and loud that we concern ourselves with the sort of government we have and whither it drifts. There will always be great problems ahead of us. Human affairs do not attain perfection nor work smoothly like machinery. But it must thrill every American to contemplate our successful experiment of liberty and equality serving the forward march of humanity. It must move him to some depths of thinking to know that visitors from other lands come here to seek the causes of our social and economic victories and return home to speak, to be sure, of time saving and trouble saving devices, of high wages and good living, but also to interest them in terms of liberty and equality—to tell of a land where no son of his father need stop where his father stopped.

Cutting the Cost

(Continued from page 342)

added enormously to their service in the way of collections. Under this head the installment notes that are left with us for collection, and on which we charge no fee or an inadequate fee, entail a very large amount of labor, besides entailing a great responsibility in case our employee, handling the collection, makes an error. Another item is the safe keeping of securities, which has increased enormously and which requires a great amount of labor, great responsibility, costly addition to our equipment, stationery, postage, etc. We find few, if any, banks make a charge for the safe keeping of securities, and perhaps half of the men and women leaving them have no account—or a losing one—with the bank. Why should banks not be entitled to a reasonable charge for this service?

Free time to large customers on outgoing drafts for which we give immediate credit, and which, in many cases, are outstanding for from three to ten days and create a very great responsibility as to routing, proper presentation, etc., also comes under this head. Might it not be possible to make a service charge or a reasonable amount of interest on these immediate credits while the drafts are outstanding?

It does not appear that wages to employees of banks and salaries to officers are any greater or as great as the same positions, ability and responsibility command in other lines of business, so I cannot see that they can be reduced materially unless the entire structure of wages is reduced. Therefore, the only saving that I can see that can be made in this connection is to have first-class equipment, time and labor saving machines and everything that will make for larger output by the individual clerk, with no decrease in accuracy. Banks, like factories, cannot afford to use obsolete machinery. It had better go into the junk pile and give way to the latest and best.



CALIBER

THROUGH 57 years of multiplied contacts with business and banking institutions reaching every known market, this Bank has acquired in unusual degree that caliber and breadth of vision which bank officials recognize as desirable in their Chicago correspondent.

FREDERICK H. RAWSON
Chairman of the Board

HARRY A. WHEELER
President

CRAIG B. HAZLEWOOD
Vice-President

UNION TRUST COMPANY

CHICAGO

Offering the Seven Essentials of a Banking Home

Safety • Spirit • Experience • Caliber • Convenience • Completeness • Prestige

Keen competition already noted has resulted in an extensive advertising campaign. I have inquired of ten of the larger banks and ten country banks in the Tenth Federal Reserve District, and their average advertising expense has increased more than 60 per cent since 1914. I am not here questioning the wisdom of this campaign, but in discussing the increased costs, we must take cognizance of it.

Public Funds a Problem

I FIND that in many localities there has been an undue scramble for the deposit of public funds, and interest rates have been paid in competition entirely out of line with returns that can be made from the use of

these funds. In addition to exorbitant interest rates, banks are generally required to put up special security, either municipal or government bonds or surety company bonds, which add to the burden. The several municipalities making up our government should not require more than the ordinary rate of interest paid on ordinary, similar checking accounts.

Losses have made a very material inroad on the earnings of the banks. Of course this was inevitable on account of the readjustments coming about after the war. But bankers should certainly have had their lessons and refrain from loans that are hazardous. It is high time we were giving ourselves the benefit of the doubt rather than giving the borrower the benefit.

A Satisfactory Connection In The Southeast

BANKS and Bankers interested in better collection facilities are offered the services of these institutions.

Our facilities for handling active and inactive accounts and collections are complete in every detail.

HAMILTON NATIONAL BANK HAMILTON TRUST & SAVINGS BANK

T. R. Preston, President

Chattanooga

Tennessee

Cash Income

(Continued from page 305)

has a full house, and with his educational films he usually puts on a good comedy film for the boys and girls.

We have obtained the most gratifying results from our efforts. What applies to our cotton section I think will equally apply to those sections where wheat and corn are the principal money crops.

The following plan has stood the criticism of the agricultural experts, and where adopted by the farmer has brought to him prosperity:

Safe and Sane Farming Means

Poultry on Every Farm.
Brood Sows on Every Farm.

From Three to Ten Dairy Cows on Every Farm. (As Many as the Family Can Conveniently Handle.)

Home Garden on Every Farm.

Cribs Full of Corn.

Barns Full of Hay.

Potato Houses Full of Potatoes.

Smoke Houses Full of Meat, Lard and Sorghum, and MORE Cotton or Corn or Wheat on LESS Acres.

A great many farmers are like the Southern farmer who had lost about half of his crop from the boll weevil, and the following year someone asked him how much cotton he was going to plant, and he said: "Twice as many acres as last year, because I have to plant enough for me and boll weevil both."

Most farmers think a solution of their

problem will only come by increasing their cash crops, when so many of them should increase their chickens, their pigs, their cows and have a good garden and raise their food and feed.

Six Helpful Points

SUMMARIZING my main points, I wish to repeat:

First: The amount of crop produced by the farmer is dependent on the weather.

Second: Economic laws and mistakes of judgment cannot be changed by legislation.

Third: A one-crop system is unsafe.

Fourth: The farmer should supplement his main crop by something that will give him a weekly income.

Fifth: It is hazardous for the farmer to mortgage his prospects of a crop not knowing the results of production in either amount or price.

Sixth: The ideal plan is for the farmer to produce his crop on his own money and market it cooperatively under able management.

Bankers' View

(Continued from page 284)

restraint arrested this development which too broadly extended and emphasized the principles of competition. This natural process of consolidation should be permitted to go forward, subject to supervisory jurisdiction of the Interstate Commerce Commission, to the extent of maintaining competition and preserving so far as possible the present channels of trade. If this process had not been arrested some years ago by prohibitory legislation the nation's natural railroad evolution would have automatically disposed of this question of consolidation.

Consolidation by loose associations, different boards, etc., is a problematical course. With the removal, however, of present legal obstacles and the granting of clear corporate powers to both effect and operate consolidated properties when approved by the Interstate Commerce Commission, the present so-called consolidations would become real mergers and whatever natural tendencies existed among other lines would develop. In other words, if present legislative restrictions are removed and consolidations permitted, subject only to the supervisory power of the commission, they will take place gradually and effectively in the future as they did in the past, but along sound economic lines that will preserve the integrity of investments.

We cannot turn back the wheels of progress. Adjustments of transportation to new conditions are even now in the transition period, equalizing the opportunities for business and placing the railroads once more in the vanguard of national development.

Consolidations Are Desirable

KNOWING that the successful systems of today are but the logical and natural outgrowth of consolidations, we believe that the further legalized grouping of the railroads of the country into a limited number of strong and efficient systems, which will, as far as practicable, maintain existing routes and channels of trade and commerce, and preserve as between them-

selves the advantages of effective competition, is a highly desirable course to common prosperity.

As the Interstate Commerce Commission has amply demonstrated their ability to rule upon railroad questions, this committee believes their competency and specialized knowledge equip them to protect fully the public interests under a series of authorized voluntary rail consolidations, which should be encouraged, but not hastened, for one thing is most apparent: It will take the attrition of time to wear down and smooth over the difficulties of consolidation without serious disruption to our economic course.

It is doubtful whether sufficient economies will result from consolidation to warrant any general reduction in freight or passenger rates; but natural alliances, if wholesome competition is preserved, will be beneficial to the country in providing a more adequate service, which is generally regarded more important to its welfare than rates.

Weighing each case thus on its merits, the development of a uniformly stronger rail system, coordinated because of traffic relations and not for speculative purposes, will insure a progressive, competent, and competitive transportation service at rates which will produce the maximum net results to the shipper and carrier, and the greatest expedition consistent with the comfort, convenience, and the paramount requisite of all, dispatch—with safety to the public.

Federal Legislation

(Continued from page 380)

UNDER the law before amendment a false financial statement to constitute ground for denying a discharge had to be given directly to the complaining creditor or his representative. The amendatory provision serves to prevent those evasions of the law, which now occur, by having false statements made to and distributed by commercial agencies.

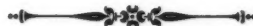
The purpose of another amendment is to prevent fraudulent transfers occurring at any time within twelve months preceding the filing of the bankruptcy petition, as being ground for denial of discharge. In other words the amendment requires the bankrupt to be honest for a period of twelve months preceding his bankruptcy instead of four months as now provided if he is to receive the benefits of the bankruptcy law.

The purpose of the above and other amendments is to strengthen the bankruptcy law and to help creditors to help themselves to administer the law. No honest debtor is in any way injured by the amendment and no creditor will suffer by the changes.

Acts were passed authorizing the funding of the debts due from the Kingdoms of Italy, Belgium and Rumania and from the Republics of Esthonia, Latvia and Czechoslovakia, assuring repayment to the United States of approximately seven billions of dollars.

The *Journal* Group Subscription Plan will place at the disposal of the bank's staff information which will add to efficiency and prevent losses.

The First National Bank of Birmingham Birmingham, Alabama



DEPOSITARY OF THE UNITED STATES
AND THE STATE OF ALABAMA

Capital \$1,500,000

Surplus and Profits over 3,680,000

Resources over 44,000,000

Oscar Wells, President

K. W. Berry, Vice President

Thomas Bowron, Vice President

Chas. F. Zukoski, Jr., Vice Pres. and
Trust Off.

F. S. Foster, Cashier

Paul Angell, Asst. Cash.

W. D. Robertson, Asst. Cash.

W. C. O'Ferrall, Asst. Cash.

Wade Fleetwood, Asst. Cash.

Earl C. Woltersdorf, Asst. Tr. Off.

B. F. Clowdus, Auditor

Strenuous Efforts Needed

NEVER before in the history of savings banks, Thomas R. Wallace, the retiring president of the Savings Bank Division, reported to the Executive Council at Los Angeles, has the competition which these banks meet from other sources for the dollars of the masses been so keen. To meet this, the Division has sought to direct a campaign designed to popularize the savings bank.

"Unless you are acquainted somewhat with the figures, you would hardly realize that, while the increase in savings deposits in savings banks during the past few years has been most gratifying and very considerable, the increase of savings converted to

other organizations has increased much more rapidly than the savings deposits in banks," he said. "It is the earnest belief of those who have devoted study to this matter that the savings can never be preserved and made safe unless they are intrusted to organizations which are governed by laws that experience has shown have been necessary and which are subject to examinations from outside sources, such as clearing house, state and national bank examiners.

"We feel that if savings banks are to continue to maintain the position which they held up to this time in the economic structure of our country, it is necessary that still more strenuous efforts be made to popularize savings banks as the depository for the savings of the people."

THE FOREMAN BANKS

FOUNDED 1862

We invite your business on a 64-year record of continuous growth. We are fully equipped to serve you in every banking function.

The Foreman National Bank

The Foreman Trust and Savings Bank

La Salle and Washington Sts.

Chicago

Combined Capital, Surplus and Undivided Profits exceed

\$11,000,000

Report of Special Committee on Taxation

By OLIVER C. FULLER, Chairman

THIS committee exists for the special purpose of safeguarding from hostile amendment Section 5219, United States Revised Statutes, which permits state taxation of national banks. When amended in 1923 this section permitted the states to tax the income of national banks or the dividends of the shareholders as alternatives to taxation of the shares.

Only one state, Massachusetts, adopted a system of income taxation of banks, and this was provided in the form of an excise tax, measured by the income, and it was of doubtful authority. It became obvious that the permission accorded by the 1923 amendment to tax the incomes of national banks was not workable, because the income from government bonds or other tax-exempt securities could not be taxed.

In the state of New York the banks were desirous to be taxed on their income on a basis of equality with other corporations, and the legislature was willing to provide such system of taxation, but found it impracticable to place banks on an equality basis with other business corporations for two reasons: first, because taxation of the income of corporations was in the form of a franchise tax, which enabled the state to include tax-exempt securities, and this inclusion could not be made in the case of national banks; second, shareholders of New York corporations were obliged to include their dividends in their personal income tax, and Section 5219, as amended in 1923, would not permit the taxation of dividends.

A committee of New York bankers presented the situation to our Special Committee on Taxation and to the Committee on State Taxation of our Association, sitting jointly, and this resulted in a favorable recommendation to the Administrative Committee, which adopted a resolution that a committee be appointed to confer with a committee of the National Tax Association, such committee to have power with the General Counsel to further the enactment of amendments to the alternative income and dividend provisions of Section 5219 in accordance with the recommendation of the New York banks.

A SPECIAL committee of five was appointed by President Wells consisting of Oliver C. Fuller, chairman; Stephen Baker, representing the New York banks; Thornton Cooke, chairman of the Committee on State Taxation, and Elmer A. Onthank and Rome C. Stephenson, both members of our Special Committee on Taxation. This committee held meetings with a special committee appointed by the National Tax Association, and worked out amendments which were finally agreed upon.

These amendments were introduced in Congress on March 3 by Mr. McFadden, H. R. 9958, and by Senator Pepper, S. 3377, and a hearing was given by the House Banking and Currency Committee. The bill passed both House and Senate, and was signed by the President on March 25.

The efforts of the committees representing the American Bankers Association have thus resulted successfully, and the way is now open to a number of states to abandon the property tax upon the shares and substitute a system of income taxation on a basis of equality with other business corporations. Since the amendment of the law on March 25, the state of New York has already passed a law under which, beginning with next year, banks will be placed on a 4½ per cent income tax basis, the same as is now imposed upon business corporations, and the share tax and moneyed capital tax have been repealed to take effect March 31, 1927.

An explanatory article which covers this subject more in detail was published in the April Journal of the Association.

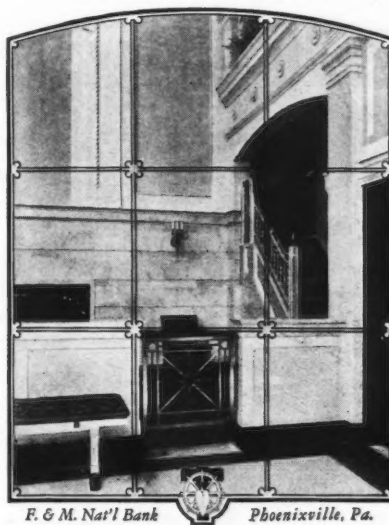
There will be sessions of legislatures in forty-five states during 1927. It promises to be a big year from the standpoint of legislation. In several states banks are seeking more equitable taxation. In a few states there is a prospect of new banking codes.

Art—& Banking Profits

NOT a single customer remembers the color of the walls or the shape of the marble—yet, without exception, they call it an attractive bank. When skillfully employed, Art marks the building, yet attracts no attention to itself.

Not a single practical feature is slighted to gain that beauty. Not a window sill too high, a door too narrow, a space ill fitted for its desk or its cage. Art is employed in its proper place—subordinate to Use.

Every building should first of all be *useful*; soundly built and precisely fitted to every need. The Bank's building, however, is most profitable only when, in addition, it is marked by grace and beauty. It is the Beauty of the building that draws friends and customers. Art skillfully employed makes profits for the banker.



F. & M. Nat'l Bank Phoenixville, Pa.

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ARCHITECTS - ENGINEERS

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Gentlemen: Without obligation, please send me a copy of "Building the Bank for Business".

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Bank Economies Effected by a Budget

By H. Y. LEMON

Vice-President, Commerce Trust Company, Kansas City, Mo.

BANK economies is a term as general almost as personal liberty, and subject to the same amount of abuse. From the old-fashion notion of efficiency, with slightly more than the minimum comforts to those performing the tasks, bank economy has come to mean some undefinable goal, attainable only by the help of auditors, comptrollers and efficiency experts, with their ever-growing, never-ending schedules and charts.

Quite regardless of this, the underlying principle of bank economies is still:

"What do you get for the money you spend?" and "After you have it, is it worth what you paid for it?"

The way to these answers is found quickly and simply.

Divide your operations and analyze; then subdivide and reanalyze.

Does your clearing house man know how many items he handles, and at what cost?

Does his cost remain constant, or does it fluctuate?

Is he using manual labor when machines are more efficient and economical, or is he using more machines than his volume requires?

How do his operation costs compare with those of the transit man?

How do they compare with the costs in other banks?

What tangible results do we get from the tremendous amount of money spent for publicity?

Similar questions for the subdivisions of each department of the bank soon develop a picture of good and bad. Labor, mechanical equipment, supplies, postage, interest and other costs become actors on the stage and speak their stories in plain language.

WHAT is badly needed at this time is a yardstick of bank costs as they pertain to the small bank and medium size bank, as well as the larger bank, and no more important work could be done by the Clearing House Section than the compiling of cost data for the guidance of banks all over the country.

From analysis to budget is an easy transition; by looking backward we develop a schedule for the future.

It is only recently that we have begun to associate the term budget with other than governmental and municipal operation.

Within the last year or so banks, particularly those in the larger centers, have begun to realize the necessity of complete and effective control over expenditures, and, therefore, the use of the budget system is becoming quite general.

The budget is decidedly helpful to the executives in outlining a definite administrative program, and in connection with analysis at once brings about a coordination which otherwise would be lacking.

In considering this subject from any angle, it is apparent that analysis and budget are the real source of all bank economies, and it is a safe conclusion that the factor of bank economies will vary with the scrutiny and team work of junior officers and departmental heads.

"THE great development in fiduciary business has been the development of life insurance trusts," Francis H. Sisson, the retiring President of the Trust Company Division told the Executive Council at Los Angeles. "We have studiously cultivated the life insurance companies. We have held repeated conferences with them and I think today it may safely be said there is an entente cordial and cooperative understanding with the life insurance companies all over the country which seems to assure substantial fiduciary business of all that handle that type of business."



From Pennies to Millions

Each particular type of financial service is developed to its highest point of efficiency through the division of the First National Group into three closely co-ordinated institutions.

The total capital investment of this affiliated group is now in excess of Twenty Millions of Dollars with combined resources of more than One Hundred and Seventy Millions of Dollars.

Such a huge capitalization, the biggest of any banking institution in Michigan, enables the Board of Directors and Officers of the First National Group to meet adequately the financial requirements of banks, manufacturers, merchants and business enterprises.



FIRST NATIONAL BANK CENTRAL SAVINGS BANK FIRST NATIONAL CO. of DETROIT

The Vigilantes Check Crime

By FORBA MCDANIEL

WITH a reduction of fully 60 per cent in the number of bank crimes of violence and reduction of 80 per cent in the amount of bank losses during the last year in the six states of Iowa, Oklahoma, Kansas, Minnesota, Illinois and Indiana, which now maintain the Vigilante or County Unit Protective Plan, its effectiveness is conclusively proved. This percentage of reduction, we feel, justifies our pride and enthusiasm in the organization.

The plan originated in the Iowa Bankers Association, from which much of our data was obtained. Briefly, details of the plan are, first, organize a county bankers association, and within it a county protective organization is formed; a reward of \$1,000 or more is offered for the capture and conviction of bank bandits, dead or alive, and large reward cards are widely distributed throughout the country; each bank then selects its guards or vigilantes and has them appointed special deputy sheriffs. They are

then bonded and in many cases each deputy is insured against accident; the deputy sheriffs are furnished rifles, revolvers, shot guns and ammunition at the expense of the county bankers association.

An important feature of the plan is the signal system which is worked out with the local telephone company and its operators so that the alarm can be quickly spread to adjoining counties and to state headquarters. Alarm systems are installed in the banks communicating with the business places of the various vigilantes. In fact every possible detail is worked out for the immediate capture of bandits who attempt a robbery.

In Indiana we have sixty-eight counties organized, with an army of 1700 men equipped with 800 rifles, 1250 revolvers and plenty of ammunition. From July, 1924, to July, 1925, which was the year previous to the inauguration of the vigilante organization, thirty-three Indiana banks were attacked, with a total loss of \$88,000. From July, 1925, to July, 1926, the year in which the vigilantes were organized only nine banks were attacked with a loss of but \$19,000.

The lives of two assistant cashiers were sacrificed during the reign of banditry in Indiana prior to our county unit protective organization.

Figures supplied by M. A. Graettinger, secretary of the Illinois Bankers Association, show that from January 1, 1924, to April 1, 1925, the date on which their protective campaign was launched; there were eighty-eight attacks with a loss of \$590,000. Since April 1, 1925, to September 1, 1926, a period of seventeen months with the vigilante organization installed, there have been only thirty-five attacks with a loss of \$90,000.

It is a matter of real gratification that reports from other states having the county unit plan of protection are equally interesting.

Other Benefits in Plan

BESIDES reducing the number of attacks and monetary losses, the county unit protective plan is of inestimable value to the state bankers association in the following ways:

1. It stimulated the formation of county bankers associations in communities that heretofore had shown no interest in closer cooperation.
2. It produced at least one key banker in every town, who besides handling his local vigilante organization, is now taking a keen interest in other association activities. In other words, the protective organization has brought out a new type of association worker.
3. It gave the state bankers association a fine publicity vehicle which did more than any other one thing to break down the prejudice against bankers and their organization. It focused the attention of the whole state on a project that was thought in the beginning to be impossible, but which was successfully executed by the state association.
4. It provides a subject for discussion in county, group and state meetings of vital interest to every banker present.
5. It has proved a successful panacea for a menace that was seriously threatening the banking institutions of the state.

Always Clean and Safe

THE safest mat ever made to walk or stand on. The best mat to trap dirt and keep it from spreading. And the easiest mat to clean. That's what you get when you use WEAR-PROOF MATS in your bank building.

One glance at the comparative figures based on actual test will show you why WEAR PROOF MATS are the preferred choice in over 50,000 of the World's Greatest Buildings and industrial plants.

On WEAR-PROOF MATS it takes 188 pounds of pull to make a 200-lb. man slip.
On Rubber Mats it takes only 90 pounds of pull to make a 200-lb. man slip.
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You never slip on a Wear-Proof Mat because they are made of steel and asphalt saturated wool felt which is impervious to moisture and prevents slipping. Built in link form they trap the dirt between the links and keep it from spreading. They roll up like a rug, making them easy to clean—and "They Never Wear Out."

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Our Free Book on Wear-Proof Mats will show you a hundred and one places where these safe, sure-footed mats will cut down your overhead expenses and give you the most economical mat service. Send for this book and see how you too can end your mat trouble and mat expense for all time and get everlasting mat satisfaction.



State Legislation Committee's Report

By W. D. LONGYEAR, Chairman

THIS committee has been active in urging through state organizations the enactment by state legislatures of measures recommended by the American Bankers Association. The field of operation has been somewhat limited, as only nine states held regular sessions while four additional states held special sessions during 1926. The nine states which held regular sessions were Kentucky, Louisiana, Massachusetts, Mississippi, New Jersey, New York, Rhode Island, South Carolina and Virginia. Special sessions of the legislature were held in Georgia, Michigan, Pennsylvania and Washington.

The state of Mississippi passed the Association measure punishing the crime of burglary with explosives by a term of imprisonment for not less than twenty-five years nor more than forty years. It also passed the measure recommended by the Association authorizing the forwarding of negotiable paper direct to the payor.

The state of Virginia enacted the Association measure designed to punish the giving of bad checks, which supersedes the Act of 1920, which punished the obtaining of money, property or credit with fraudulent intent upon worthless checks. Under the new law it is not necessary to prove that money or property was obtained in order to constitute the crime.

The legislature of Kentucky repealed and reenacted the bad check law in a different form. The new law is a modified form of the Association measure.

The state of South Carolina passed the Joint Deposits Act recommended by the Association with certain additions and modifications which are set forth in Appendix A.

Washington Enacts Laws

THE state of Washington amended the Association measure punishing libel and slander of banks by including, among the institutions protected, savings and loan associations, savings and loan societies and industrial and loan companies. Also, the state of Washington passed the Uniform Sales Act, which has been recommended by the American Bankers Association because of its provisions covering negotiable documents of title, including bills of lading and warehouse receipts, but in enacting Section 76b, the Washington legislature defeated the purpose of making warehouse receipts fully negotiable, which was the evident intention of the legislature. This will call for the enactment of further legislation in 1927 to carry out the intention of the legislature. Washington also passed an act based on Section 8 of the Uniform Fiduciaries Act recommended by the Association. This act protects a bank in paying checks drawn or

indorsed by an agent to his own order.

Protects Bank Deposits

THE legislature of Louisiana passed the recommended measure relating to adverse claims to bank deposits.

In addition to measures recommended by the Association, a great variety of banking legislation has been enacted during 1926 in the different states.

The committee renews its recommendation made to the Executive Council at its Spring Meeting that special efforts be made to promote the enactment of the Uniform Fiduciaries Act by the legislatures which convene in 1927. It appears that banks in many states are doing business under a considerable amount of risk in connection with the receipt on deposit and payment of checks drawn payable to agents, officers of corporations and other fiduciaries. An impracticable duty of inquiry is placed by the courts upon the banks in connection with these transactions, and the Uniform Fiduciaries Act was expressly designed after years of careful preparation to protect the bank against such undue risk.

The committee considers this act one of the most important of the twenty-one of the subjects of legislation recommended by the Association.

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Los Angeles, Cal.

COMBINED RESOURCES \$110,000,000

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Charles H. Laird, (3), vice-president, West Jersey Trust Co., Camden, N. J.

William K. Payne, (2), president, Cayuga County National Bank, Auburn, N. Y.

C. M. Smith, (1), president, Marble Savings Bank, Rutland, Vt.

R. D. Sneath, (4), president, Commercial National Bank, Tiffin, Ohio.

H. Lane Young, (6), executive manager, Citizens & Southern Bank, Atlanta, Ga.

D. H. Otis, First National Bank Building, Madison, Wis., Director.

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F. D. Farrell, president, Kansas Agricultural College, Manhattan, Kan.

H. L. Russell, dean, College of Agriculture, University of Wisconsin, Madison, Wis.

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John B. Lerner, president, Washington Loan & Trust Co., Washington, D. C.

John G. Lonsdale, president, National Bank of Commerce, St. Louis, Mo.

John McHugh, president, Chase National Bank, New York, N. Y.

Robert F. Maddox, chairman of board, Atlanta & Lowry National Bank, Atlanta, Ga.

D. H. Moss, vice-president, First National Bank, Seattle, Wash.

Lewis E. Pierson, chairman of board, Irving Bank and Trust Co., New York, N. Y.

Charles H. Sabin, chairman of board, Guaranty Trust Company, New York, N. Y.

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind.

J. R. Washburn, vice-president, Continental & Commercial National Bank, Chicago, Ill.

F. O. Watts, president, First National Bank, St. Louis, Mo.

W. Espey Albright, deputy manager, A. B. A., 110 East 42nd St., New York, N. Y., Secretary.

Economic Policy

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Paul M. Warburg, chairman of board, International Acceptance Bank, New York, N. Y., Vice-Chairman.

Nathan Adams, president, American Exchange National Bank, Dallas, Tex.

Leonard P. Ayres, vice-president, Cleveland Trust Co., Cleveland, Ohio.

Edward Elliott, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

Walter W. Head, president, Omaha National Bank, Omaha, Neb.

Commissions and Committees

Elected or appointed for the Association year 1926-1927

THE members of the Commissions and Committees, exclusive of the Divisions and Sections, under the new Administration are as follows:

Commissions

(By-Law VII, Section 3, provides: "The President, the First and Second Vice-Presidents and the Executive Manager shall be members ex-officio of all commissions and committees of the Association.")

Agricultural

(Numbers in parenthesis indicate Federal Reserve Districts.)

Burton M. Smith (7), president, Bank

of North Lake, North Lake, Wis., Chairman.

C. C. Colt, (12), vice-president, First National Bank, Portland, Ore.

J. Elwood Cox, (5), president, Commercial National Bank, High Point, N. C.

F. C. Dorsey, (8), vice-president, Liberty Insurance Bank, Louisville, Ky.

P. B. Doty, (11), president, First National Bank, Beaumont, Tex.

Peter W. Goebel, (10), chairman of board, Commercial National Bank, Kansas City, Kan.

Rudolf S. Hecht, president, Hibernia Bank & Trust Co., New Orleans, La.

Walter Lichtenstein, executive secretary, First National Bank, Chicago, Ill. (Secretary to the Commission.)

Max B. Nahm, vice-president, Citizens National Bank, Bowling Green, Ky.

George E. Roberts, vice-president, National City Bank, New York, N. Y.

H. M. Robinson, president, First National Bank, Los Angeles, Cal.

A. O. Wilson, vice-president, State National Bank, St. Louis, Mo.

Public Education

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis., Chairman.

C. W. Allendoerfer, vice-president, First National Bank, Kansas City, Mo.

Paul Angell, assistant cashier, First National Bank, Birmingham, Ala.

Rudolf S. Hecht, president, Hibernia Bank & Trust Co., New Orleans, La.

Russell G. Smith, assistant vice-president, Bank of Italy, San Francisco, Cal.

P. R. Williams, vice-president, Commercial National Trust & Savings Bank, Los Angeles, Cal.

C. F. Zimmerman, secretary, Pennsylvania Bankers Association, Huntingdon, Pa.

Richard W. Hill, secretary A. I. B., 110 East 42nd St., New York, N. Y., Secretary.

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Guy Emerson, vice-president, Bankers Trust Co., New York, N. Y.

W. R. Morehouse, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

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George O. Walson, president, Liberty National Bank, Washington, D. C.

W. W. Woodson, president, First National Bank, Waco, Texas.

Gurden Edwards, 110 East 42nd St., New York, N. Y., Director.

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Administrative

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G. E. Bowerman, president, Fremont County Bank, Sugar City, Idaho.

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Better Banking

(Continued from page 302)

Then there is the matter of reserves, not only reserves in cash and due from banks, but secondary reserves in strictly liquid assets. I believe that some attention should be given by American banks to this matter of secondary reserves. Every bank having demand deposits or time deposits, which may be drawn upon heavily in times of stringency, should have strong secondary reserves in outside paper, Liberty Bonds, call loans, short time securities and other strictly liquid assets.

At one time the usual answer received by anyone who proposed that a bank invest in outside paper was that the bank could not afford to loan money at the interest such investments pay, and that such loans could not be made profitably as against local loans bearing a considerably higher rate. Everyone closely in touch with the situation during the boom years knows that many banks were giving "service" to such extremes that it was impossible for them to earn a profit on the rates of yield attainable in strictly liquid assets.

It has by now become quite well substantiated that the difference in rate represents fairly good insurance against the bank's inability to pay out against the quick withdrawal of deposits. The banker has been preaching diversified farming for many years. At the same time this same banker has been ignoring the value of diversified loaning.

Diversified Loans form Source of Protection

DIVERSIFIED loaning represents the same principle of safety as does diversified farming. The one-industry banker takes the same risk as the one-crop farmer.

The banker must take care of the needs of his own community, to be sure, but the most certain plan for accomplishing this is to keep his institution in as liquid a position as possible, so that when the extra demand comes he can take care of it. He should have an amount of slack in his line. I asked the heads of the banking departments of twenty-one states if they believed that there would be fewer bank failures if all the banks under their care were to maintain such secondary reserves, and I received an unanimous answer in the affirmative.

Another principle of sound banking practice, and a corollary to the problem of the proper secondary reserves, is that we should not invest too large a percentage of our assets in long-time loans which have a much slower turnover and which are not likely to be as quickly realizable. Of course, a soundly made farm loan or city real estate loan can generally be turned through a sale to a local investor or an outside investor. In times of heavy credit demand, however, this buying power is likely to be lessened. The bank is fortunate that has a good sale for the mortgages it makes, and that does not feel compelled to pile up securities of this character in its own assets in order to take care of this part of its customers' demands.

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Send for a copy on five days' examination.

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Credit Files an Advantage

ANOTHER rule of good banking practice is to maintain in the bank files full information regarding the financial condition of its customers. There were many bankers in the old days, and there are many now, whose only information regarding their customers' financial condition was carried in their minds. This may be satisfactory enough in a very small institution, but there is still the disadvantage that no one else could carry on as well in this banker's absence. The maintenance of credit files is a little trouble, but it pays. The very foundation of a credit file should be the customer's financial statement, prepared year by year, and signed. Credit losses are not often the result of catastrophe or quick changes in the affairs of customers. There usually are signs which the careful banker can read in advance. If he has received a financial statement year by year, oftentimes he can see the way in which a customer is drifting, and can help him get back to a safe position and at least prevent a loss to the bank.

Every customer of a bank who is an unsecured borrower of \$500 or more should be required to place his financial showing on file, and this practice should apply to farmers, merchants, manufacturers and jobbers. If this condition were made universal tomorrow, and the facts regarding losses in operation, speculation, private debts, and debts to other banks, all of which might be quite unsuspected, were made known, there would be a great many loans called in this country and a general housecleaning in many banks.

Another good general principle is that a bank should be managed so it makes a profit. This really should be a truism, but, unfortunately, it does not always hold true. From the standpoint of safety, a profit means, of course, a profit largely retained for the surplus account. If banks are to be kept safe for the public, their business must be on a



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Dec 1, Cash/Depos		510	15
" 1, Proceeds of Note		985	00
" 2, Collection by Bank		342	06
Dec 1, 1925		3,246	31
First National Bank			
Fourth Avenue Cor Draft			
Also for			
Journal 152 Voucher 608			
	\$	342.86	
No. 343			
Dec 2, 1925			
Hollywood Coal Co			
November Coal Bill			
Expense for			
Journal 153 Voucher 609			
	\$	92.43	
No. 344			
Dec 2, 1925			
Central National Bank			
Note due Dec 1			
Bills Pay: \$500. Int. 2.50			
Journal 154 Voucher 610			
	\$	502.50	947 79
	Balance in Bank	2,208	52

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of giving our stockholders a fair return on their investment.

Over-Competition a Danger

THERE are likewise a number of Don'ts in this matter of conducting a bank so that it shall never fail. Over-competition is one of them. One of the certain tendencies of over-competition is over-bidding for deposits and a tendency toward the danger line in making loans. It is a mistake for a bank to permit a borrower to dictate the credit terms. The desire to avoid losses from bad loans should certainly over-balance the fear of losing new business.

Excessive loans to a single interest is, of course, another practice to be avoided. The mere legality of the subterfuge of making separate loans to officers and directors in addition to those loans made to the business

itself constitutes no justification for them. In the statement of the Superintendent of Banks of Iowa, he said that in almost every bank that failed he found such excessive loans. Every banker should realize the extent to which he can properly expand his risk in any given direction. Beyond this he should not go under any circumstances, no matter if the credit be as prime as any on his books.

Then there is the prohibition against making capital loans, which should be heeded. Perhaps this is the most common fault, even with bankers who are entirely conscientious regarding the methods they employ. There is a distinction between making a loan for current needs, the liquidation of which is clearly in sight after the completion of certain short-time processes of crop making, or manufacture, or sales, and the making of loans which of necessity must be a part of the customer's actual capital for which he has a continuous need. This is an exceedingly important distinction to make, and the liquidity of the bank very largely depends upon it. A bank should not take the place of the partner or the stockholder. The latter should take the larger risks and thereby be entitled to the larger returns. In this same connection it is a fair generalization, although, of course, there are a number of exceptions that a banker should be engaged in but one business, and that the banking business. Many a bad situation, in large and small banks alike, has developed through the infraction of this principle.

And so I believe I might summarize in a few words this discussion of practical methods we ourselves can employ to improve the banking business. These will be like the old-fashioned maxims which you have always known, but which still are worth repeating. Let us list them (not necessarily in the order of their importance), as follows:

1. Financial statement for every unsecured loan of \$500 or more.
2. Let the banker dictate the credit terms.
3. No excess loans.
4. Let the loans to officers and directors be the best in the bank.
5. Keep some slack in our line, that is, maintain strong secondary reserves in quickly realizable assets.
6. Do not let competition force unprofitable business upon us.
7. Keep our investment in fixed assets, such as building, real estate and fixtures, within 50 per cent of our capital and surplus.

8. Do not make capital loans.
9. Discard the idea that our competitor's financial position is of no concern to ourselves.

10. Cooperate with other bankers in the common purpose of making banking a safe and more efficient business.

As bankers, we have undertaken a responsibility that goes down to the bed rock of human progress. All that is good in life—protection of family, ambitions, ideals and aims—is interwoven with the interests that are intrusted to our hands and minds. On the soundness of our advice, the fulfillment of our obligations, and the intelligent discharge of our responsibilities rest the fabric of business and a large part of the sum of human satisfaction.

profitable basis. There can be and will be no criticism on the part of the public if banks make certain that the actual costs of operation are taken care of and a reasonable profit obtained. I believe that with all the new business and publicity effort we have put forth to increase the totals of our deposit liability, we have, in part, lost track of the perfectly legitimate object of making profits to be added to the capital and surplus, and

